

ANNUAL
REPORT

2014 - 2015

2014 -
2015

LUKHANJI MUNICIPALITY



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CHAPTER 1 – MAYOR’S FOREWORD AND EXECUTIVE SUMMARY**COMPONENT A: MAYOR’S FOREWORD****Introduction**

It gives me great honour and privilege to present the annual report of our municipality for the 2014/15 fiscal year. Our annual report gives effect to the legal framework requirements, concepts and principles governing the sphere of Local Government which reflect public responsibility. Our municipality remains committed to the vision: “A municipality of choice that seeks to work closely with its people to promote good governance, economic growth and sustainable delivery of services”. The municipality continues to demonstrate tireless commitment to making a difference in the lives of ordinary citizens and maintaining the institution’s reputation for excellence, effectiveness and efficiency.

This report is in accordance with powers and functions of local municipalities as described in the:

Local Government: Municipal Systems Act (32 Of 2000).

Local Government: Municipal Structures Act (117 of 1998).

Assessments and conclusions over the state of Lukhanji Municipality in 2014/2015 are based on stipulations of these Acts. This report provides a realistic overview of the state of the municipality, council and administration in the report year.

The report deals with the municipality in a holistic context but touches on the roles and functions of various operational structures and directorates. The report deals with matters of functional service delivery, financial sustainability; and the threats, opportunities, achievements and challenges faced by the local authority in year under review.

a. Vision and Mission

Lukhanji Local Municipality’s vision is *a municipality of choice that seeks to work closely with its people to promote good governance, economic growth and sustainable delivery of services.*

Its purpose statement (mission) is to *strive for financial and administrative stability while constantly providing effective, affordable, sustainable quality services and also promoting sustainable integrated development in order to achieve socio economic upliftment, stability and growth.* The primary values needed to anchor and support the realisation of the vision and mission are:

1. Good governance;
2. Accountability;
3. Public participation;



4. People Development;
5. Teamwork;
6. Integrity;
7. Tolerance;
8. Honesty;
9. Responsibility; and
10. Trust.

b. Key Policy Developments

The Integrated Development Plan for Lukhanji Municipality was drafted in accordance with the requirements and prescriptions of the Municipal Systems Act (32 of 2000). With the process of development and implementation the municipality adhered to key tasks: the Municipal council adopted a process set out in writing to guide the planning, drafting, adoption and review of the IDP; the Municipality, through appropriate mechanisms, processes and procedures, consulted the local community before adopting the process; and Municipalities involved the community in drafting and finalising the IDP.

c. Key Service delivery improvements

In the year under review, this institution continued on a positive trajectory to provide quality service delivery to the residents of Lukhanji Local Municipality areas. Taking the queue from the Minister of Cooperative Governance and Traditional Affairs for the improvement of living conditions of members of the community we serve and to return Back-to-Basics, it is indeed very true that there is no room for complacency, especially in Municipalities such as Lukhanji whose resources are disproportionate to challenges confronted. The mismatch between resources allocated as against the backlogs that need to be eradicated remain glaring. That notwithstanding, Lukhanji is proud to indicate is proud to indicate that resources allocated have been made to good use and feedback from the communities we serve is encouraging. Some of the major successes achieved in the year under review include:

- The construction of Whittlesea public toilet benefiting Ward 17
- Fencing of grazing camps in Zingquthu benefiting Wards 26 and 27
- Extension and renovation of a shearing shed in Zingquthu – Ward 26
- Construction of Upper Machibini shearing shed – Ward 3
- Surfacing of gravel road in ILinge and Ekuphumleni – Ward 2 and 16
- Renovation of ablution block in Ezibeleni stadium
- Maintenance of surface roads Pelem Road in Ward 6. This project has been completed with own funds.
- Construction of Phase 3 of Dumpy Adams stadium – Ward 19



- Upgrading of SADA Stormwater – Ward 9
- Construction of community hall in ward 13, Lower Hukuwa.
- Renovation and extension of ablution block in SADA stadium – Ward 11 and,
- Inter-modal public transport facility: Site B

d. Public Participation and Communications

The Municipality has established and functioning ward committees in all wards. We further have a public participation strategy that serves as a guideline and policy on how our communities can participate in Municipal plans, processes and activities. Our public participation strategy ensures that among others:

- (a) Planning Participation – Use of Roadshows, workshops & community based plan.
- (b) Attendance of Roadshows, meetings and workshops – Interchanging venue logistics, support with transport where possible, public announcements and advertising campaigns.
- (c) Effective communication - Meetings are run in the home language of that particular community to allow the majority of participants to input meaningfully without restrictions of language

e. Future Actions

On the downside, the municipality unfortunately received a Disclaimer of Opinion from the Auditor General. This was to be expected as the municipality operated with half of its Senior Management component for a major portion of the 2014/15 fiscal year. I am however confident that the action-plan developed by the Acting Municipal Manager and his team will take us a step closer towards attainment of a Clean Audit report. How nice it would be to close the Lukhanji chapter with a clean audit opinion as the municipality is set to be merged with the Tsolwana and Inkwanca Municipalities after the 2016 local government elections. All in all I am happy with the manner in which the municipality has been run and with the systems that have been put in place I am sure the gains will never be reversed.

f. Agreements and Partnerships

The Municipality enjoys a lot of support and co-operation from other spheres of government, NGOs, civil society, and businesses. Some of these partnerships are informal or non-formal; however, they have a huge and positive impact on service delivery.



g. Conclusion

The successes mentioned would not have been achieved without the discipline and professional work ethic from both the Councillors and officials alike. A word of gratitude goes to each Councillor and staff member and indeed it is a humbling experience to work with you. Gratitude also goes to the Mayoral Committee and the Acting Municipal Manager for providing political oversight and playing an active administrative role respectively. Lastly appreciation goes to the various stakeholders we interact with on daily basis, especially the members of the community. We appreciate the unwavering support to the cause of sound public governance. Let us all work together towards building a better society.

Signed by:



N MAKANDA
EXECUTIVE MAYOR



COMPONENT B: EXECUTIVE SUMMARY

1.1. MUNICIPAL MANAGER'S OVERVIEW**(i) Alignment of Services to IDP Indicators and Council priorities**

To illustrate the municipality's efficiency, despite of the above mentioned challenges we achieved several milestones. All our initiatives that focused on the implementation of good governance practices, led stability within our institution both politically and administratively. Special reference is also made to the considerable progress we made to align the IDP, Budget, SDBIP and performance indicators. It is not fully aligned as yet, but all indications are that complete alignment will be achieved during the 2015/16 fiscal year. In this regard we received generally positive feedback from the CoGTA EC.

(ii) Service Delivery Performance

The 2014/2015 financial year once again offered some unique ups and downs, the latter especially on management front, with the municipality suffering the effects numerous vacancies at senior management level. For the period under review, the municipality had to survive without an Accounting Officer and without two Directors for the last quarter of the financial year. On the plus side, an experienced, competent and capable Chief Financial Officer joined the services of the municipality during the period under review.

This is in particular good news for the municipality's continued endeavours to remain compliant with legislation and to keep the municipality financially sustainable. Although we realise there are no quick fixes to eradicate the impact of the vacancies at senior management level, we are confident that this concern will be addressed before long. Towards the end of the period under review, Council appointed Mrs Nolwandle Gqiba as Municipal Manager and Accounting Officer while the vacancies of Director: Human Settlements and Director: Community Services is set to be filled before the end of the first quarter of the 2015/16 financial year.

Despite all, we were fortunate that we could continue rendering high quality services to our ratepayers during the past year. We will continue doing so, despite the challenges we face. The service standards we became accustomed to over the years will remain our benchmark whereby we will measure our performance.

(iii) Financial stability as represented by the Financial health ratios

The municipality sadly obtained a Disclaimer of Opinion from the Auditor General. The challenge is now to implement measures to move the municipality away from these negative audit outcomes. In this regard, the years ahead require innovative strategic thinking by the municipality, something to which we have committed ourselves unconditionally. We have already identified and documented our most crucial risks, and are busy implementing actions plans in respect of such risks to ensure better audit outcomes and maintain our financial stability in the long term.

Our spending patterns has improved during the course of the year and with a total budget of R523.6 million at the beginning of the financial year, we were able to continue delivering a high level of municipal services to our communities and managed to complete and launch no less than 12 capital projects undertaken during the period under review.

- (iv) Efforts the Municipality is making to conserve energy and water and facilities available to complement the conservation measures we request communities to adopt in households

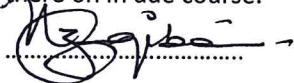
- (v) Austerity Measures management implemented a number of strategies, chief among these the implementation of stricter control and cutting back on any "nice-to-haves" and irregular expenditures without negatively effecting service delivery.

- (vi) Shared Services
- (vii) Municipal Demarcation

- (viii) Conclusion

We will keep on striving to make our ratepayers proud and are committed to performance excellence. However, to do so, our clients also have to realise their responsibility to assist us in this regard: a responsibility to understand there are various priorities requiring attention; a responsibility to be reasonable, and a responsibility to trust that we have the interests of the entire community at heart! We endeavour to remain professional and transparent in our dealings with you, at all times.

I commend this annual report to our community and look forward to receiving comments there on in due course.



N. GQIBA

MUNICIPAL MANAGER



1.2. MUNICIPAL FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

Geography, History and Economy

Area: 3 813km²

Description: Lukhanji Local Municipality covers a wide area consisting of Queenstown CBD and townships such as Mlungisi, Lesseyton, Izingquthu, Westbourne, Madeira Park, Kings Park, Top Town and Central. On the eastern side there is Ezibeleni township, Tylden, Gwatyu farms, and Ilinge township, and on the western side there is Whittlesea CBD, with a number of rural villages. The Lukhanji municipal area has been declared an economic hub due to its strategic positioning in the Chris Hani District Municipality. Lukhanji is positioned right in the middle of the national corridors to the Gauteng, Western Cape, KwaZulu-Natal, Northern Cape and Free State provinces. It is developed with the relevant infrastructure so that modes of transport such as railway, road and a small airport are available to be utilised. **Cities/Towns:** Queenstown, Sada, Whittlesea

Main Economic Sectors: General government services (30.5%), finance and business (20.3%), wholesale, retail and catering (19.4%)

Population Overview

The population of the Lukhanji Local Municipality is estimated at about 195 719 in 2013 according to ECSECC data.

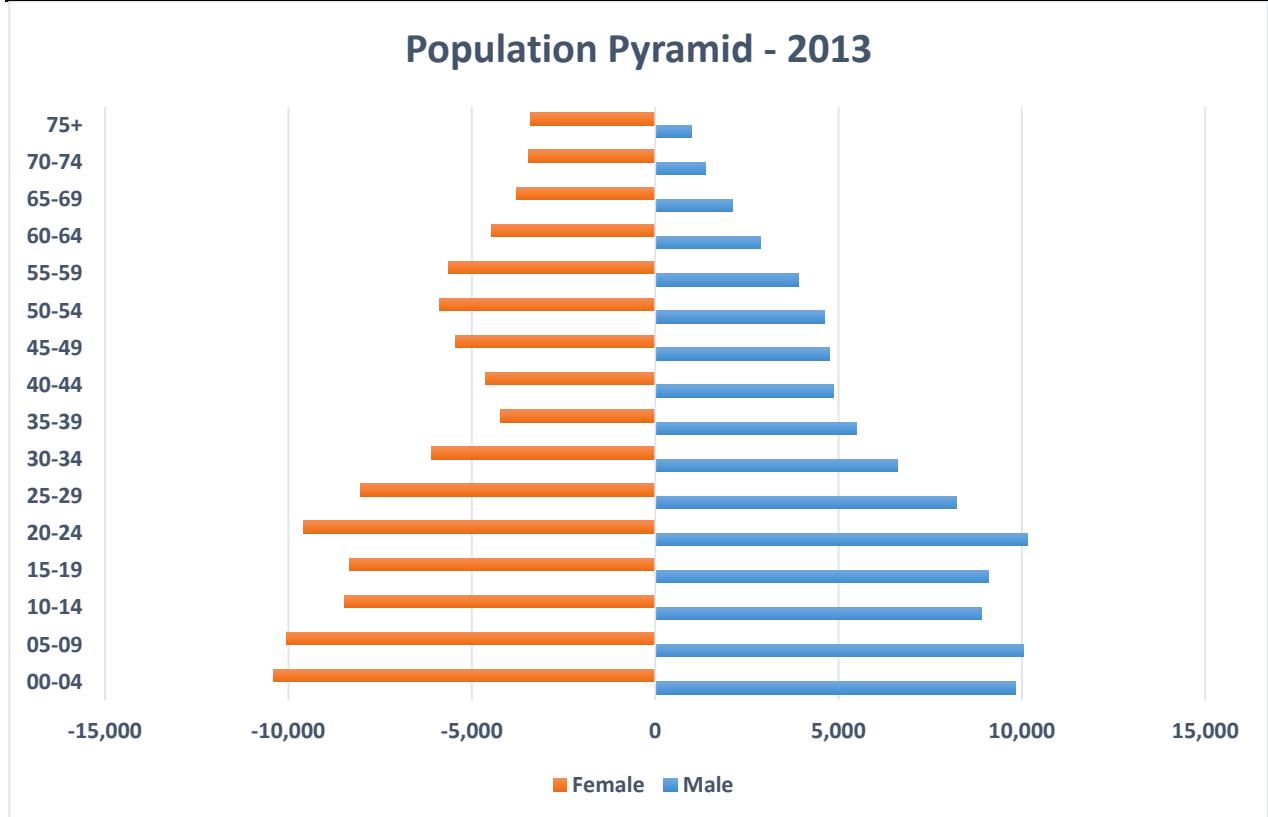
Population gender & age distribution

Lukhanji's population make-up is similar to that experienced by the country with 48% males and 52% females. The fact that females constitute the majority of the population suggests that targeted strategies should be implemented to ensure effective participation of women in the processes of municipal planning and implementation.

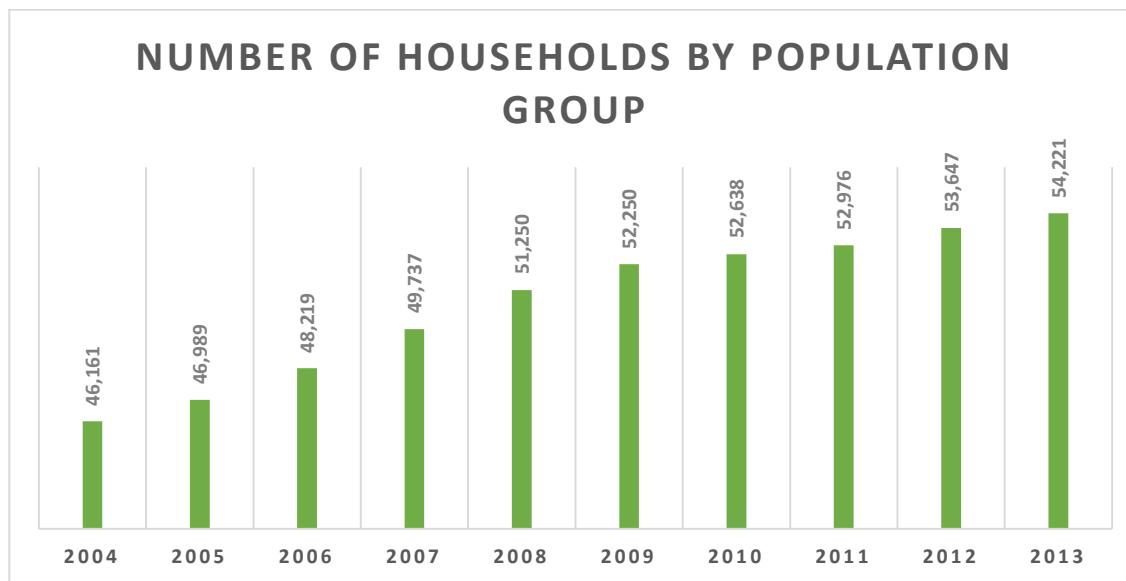


The table and graph below shows the population by gender and age distribution.

Population by population group, gender, age - 2013		
Age	Male	Female
00-04	9 832	-10 402
05-09	10 055	-10 050
10-14	8 903	-8 459
15-19	9 092	-8 339
20-24	10 162	-9 581
25-29	8 222	-8 032
30-34	6 616	-6 099
35-39	5 494	-4 208
40-44	4 855	-4 628
45-49	4 751	-5 432
50-54	4 611	-5 891
55-59	3 918	-5 632
60-64	2 881	-4 464
65-69	2 123	-3 776
70-74	1 367	-3 450
75+	1 003	-3 390
Total	93 886	101 834
Grand Total		195 719

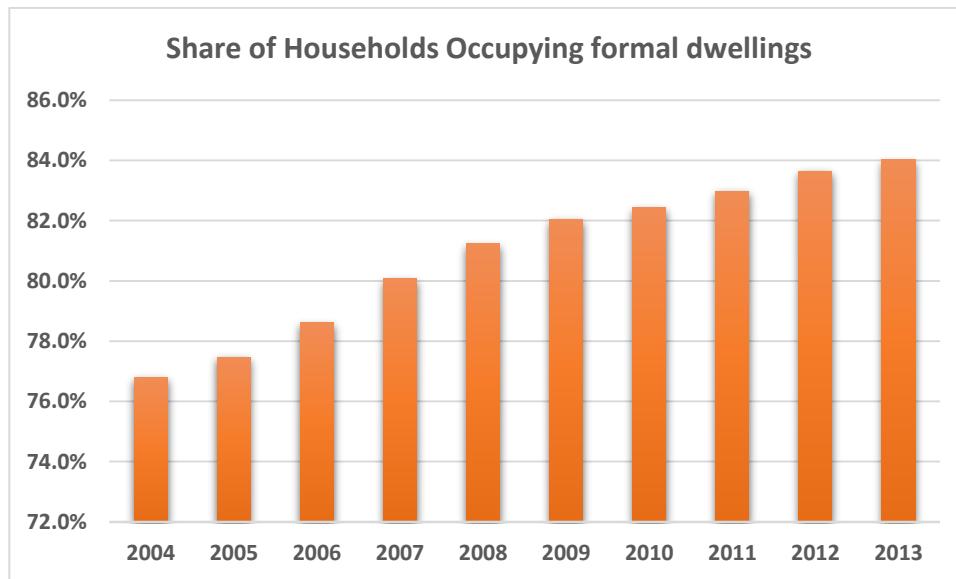


The number of households in the municipality as at 2013 was at about 54 221 and there has been gradual and consistent annual growth since 2004 as shown in the graph below. The number of households in the Lukhanji municipality increased from 44 000 in 2004, to 49 737 in 2007, to 52 638 in 2010 and 54 221 in 2013.



Household dynamics

According to ECSECC (2013) data, Lukhanji has an estimated population of **54 221** households. The majority of households in Lukhanji reside in urban formal dwellings. A small minority lives in farm areas. About 68% of the population in 2013 were urban residents. It is also important to note that households occupying formal dwellings have been growing gradually as demonstrated in the graph below.

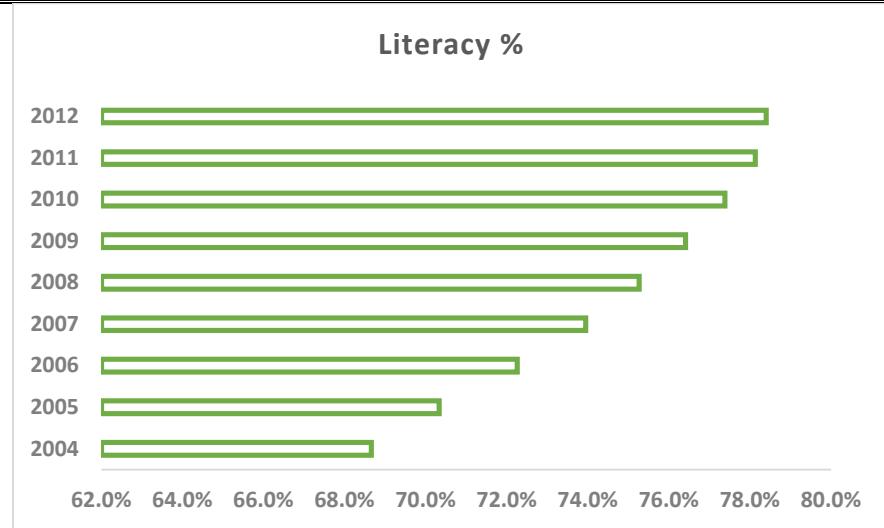


Education

The role of the Lukhanji municipality in Education is to facilitate and cooperate with the Department of Education for the provision of schools, education programs as well as directly provide for erection of early childhood learning facilities like crèches. In particular the municipality needs to communicate information to relevant authorities in terms of key priority areas needing education infrastructure and services.

The municipality also has direct interest in the monitoring of education and functional literacy levels among its economically active population so as to ensure adequate supply of critical skills needed for growing the local economy. The figure below indicates levels of educational attainment by adults in 2012 at least 78% of the adult population (20 years and older) are functionally literate (meaning that they have completed education level grade 07 and higher).





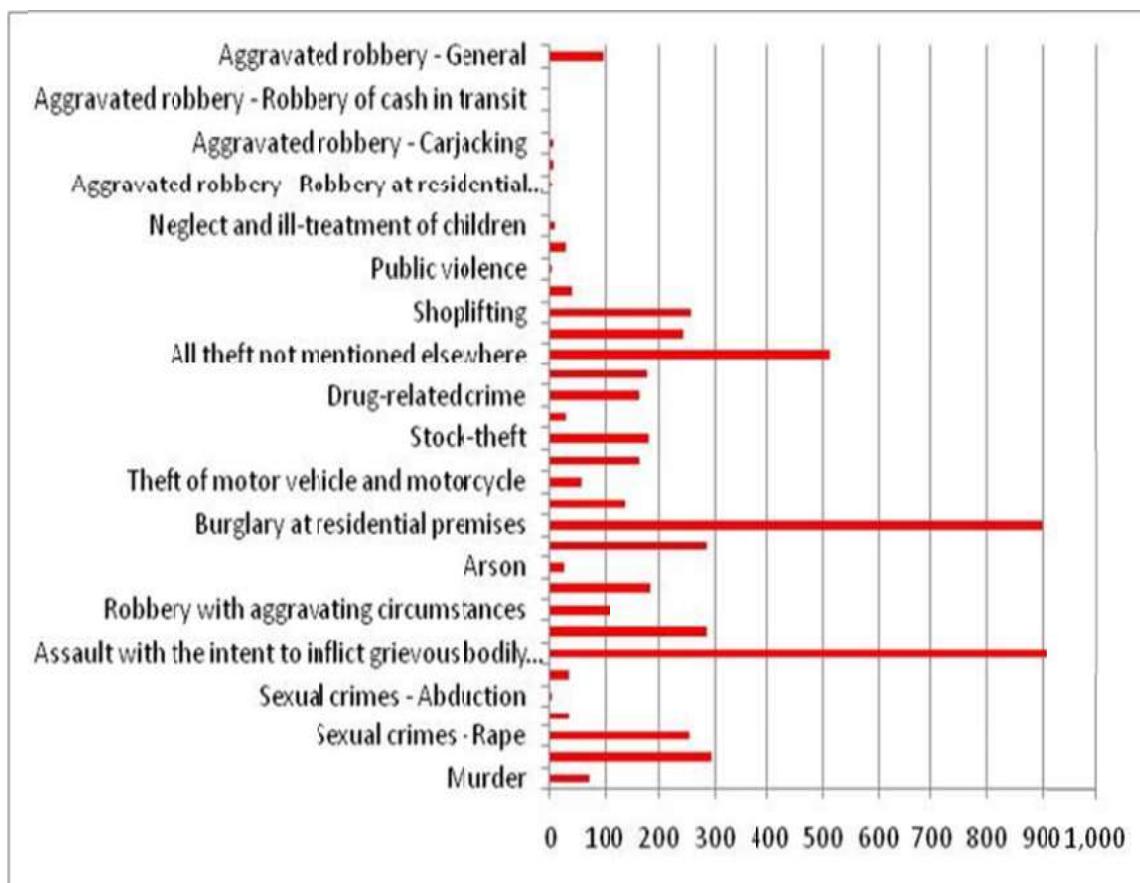
Safety and Security

Lukhanji does not have its own municipal police force therefore the responsibility for providing safety and security services in its areas rests with the South African Police Services Department

(SAPS). The intention of the municipality is to work in partnership with the security cluster departments like SAPS, Correctional services and Justice to promote crime awareness and leverage efforts for crime reduction.

According to crime statistics published annually and extrapolated by Global Insight in the figure below, dominant crimes in Lukhanji are common law crimes like assaults, burglary and theft.





In an attempt to involve communities in the reduction of crime and resolution of disputes in the area, Community Policing Forums (CPF) were established. Research shows that the CPF's are not active in some areas due to lack of training on safety and security techniques.

In order to maintain low levels of crime in Lukhanji, more safety and security services such as mobile police services need to be provided. CPFs also need to be well equipped with training to achieve their maximum effectiveness. Below is a table list of existing facilities in Lukhanji.



Police stations	Courts of law
Bridge Camp	Queenstown
Ezibeleni	Whittlesea
Ilinge	Ezibeleni
Kolomane	
Queenstown	
Tylden	
Whittlesea	
Klein Bulhoek	
Mlungisi	

Health

Primary health is a competence of the Provincial department of Health. HIV/Aids is a public health concern that the municipality should to at least monitor and proactively contribute to the reduction of the impact and the spread of HIV/Aids among its communities. An estimated 10% of population have contracted HIV while another 1% suffers from full blown Aids (Global Insight 2008).

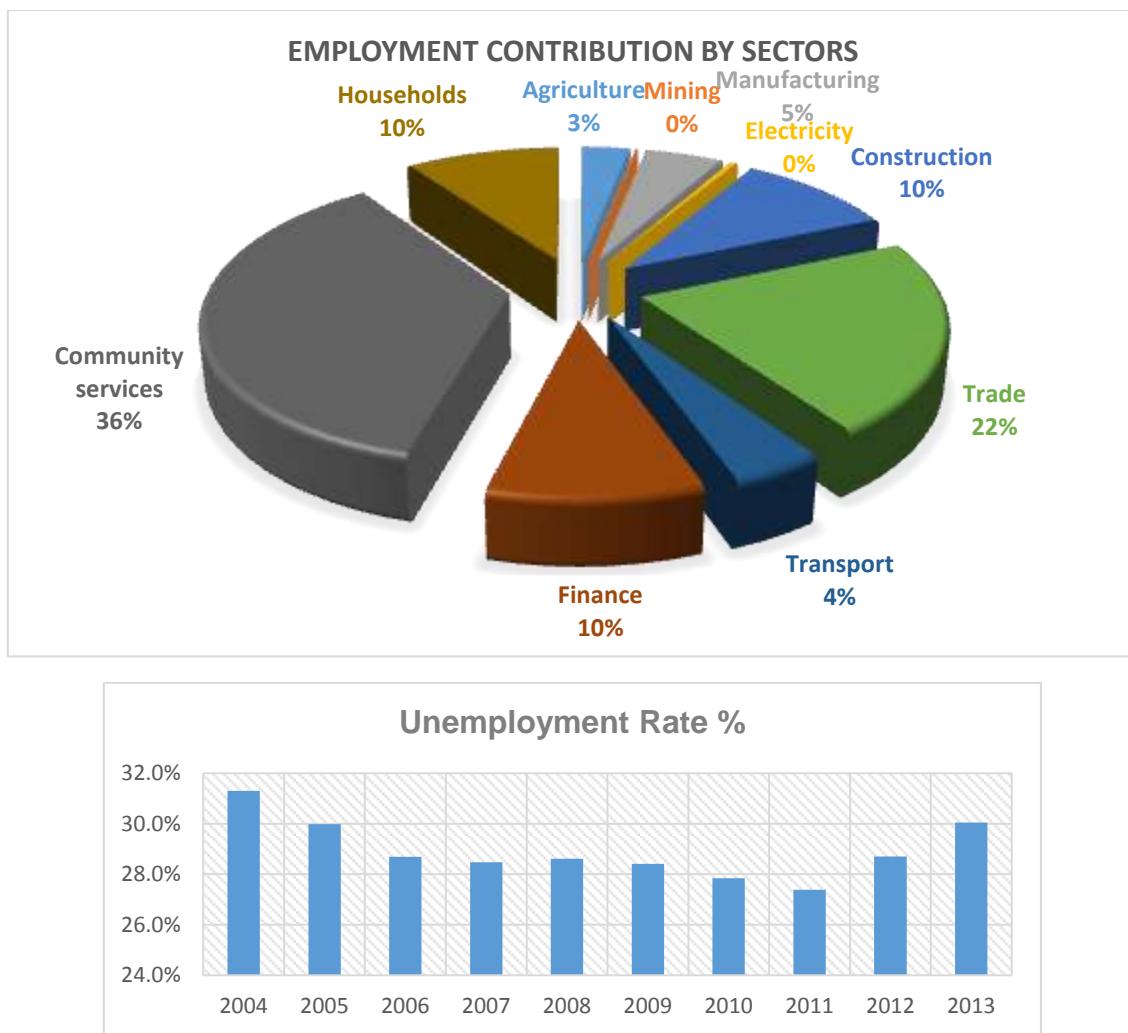


Socio – economic Status

Lukhanji municipality's socio-economic situation shows that the major sectors that contribute to employment as at 2013 were the community services at 36%, trade at 22%, finance, construction and households at 10% each. It is important to note that agriculture contributes only 3% to employment in the municipality despite its potential.

The worrying trend is the growth in unemployment from about 27% in 2010 to 30% in 2013.

The graphs below depicts the above analysis.



Key Projects

Bonkolo Dam; Bullhoek Massacre Project; Zulukama livestock improvement; Shiloh Irrigation Scheme; wool production improvement programme (Izingquthu and Gwatyu

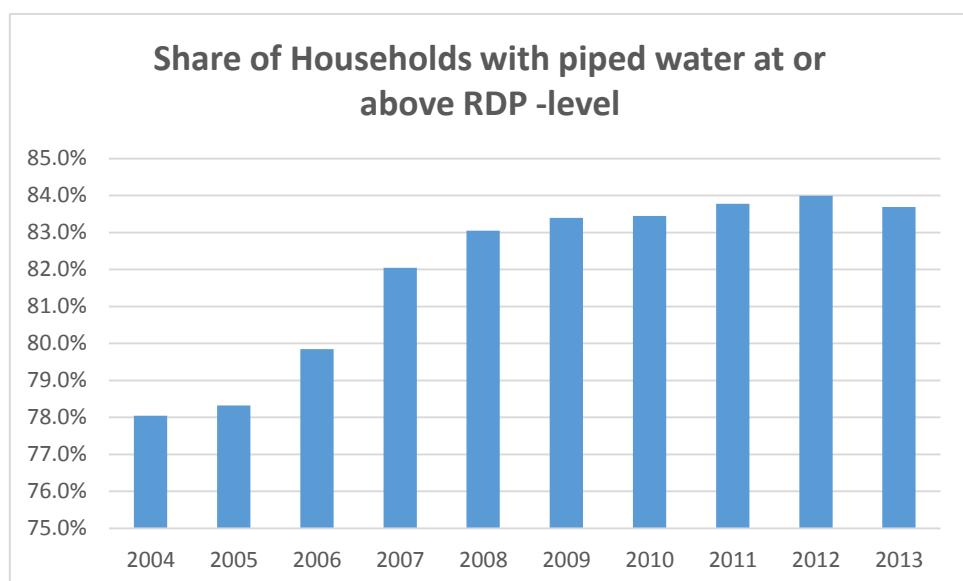
shearing shed and fencing).

Key Investment Opportunities

Wool processing; red meat production; agro-processing; logistics; aerodrome; transport and economic hub.

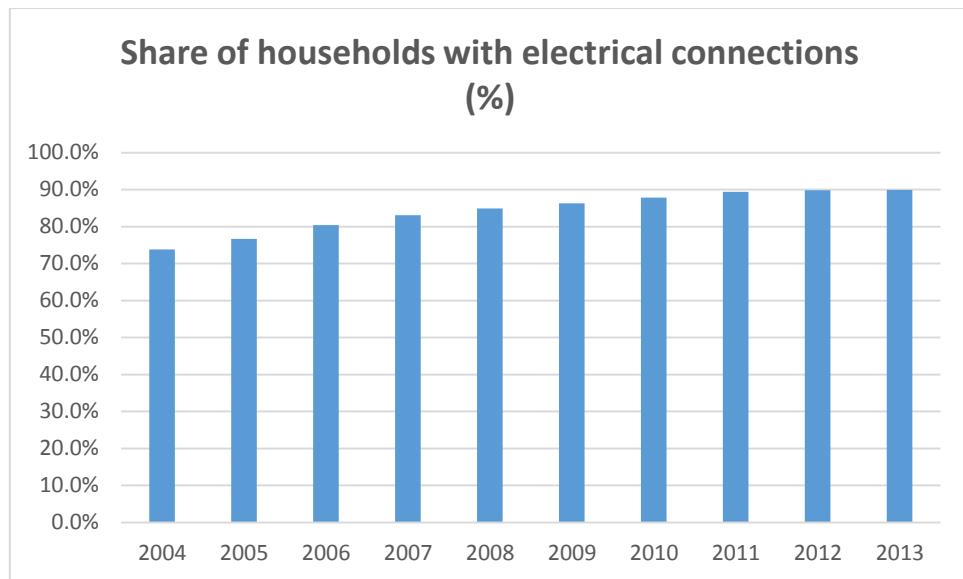
1.3. SERVICE DELIVERY OVERVIEW

From a service delivery perspective, in 2013 the share of households with piped water at or above RDP level was 84%. The period under review also marked marginal increases in access to water on all indicators.

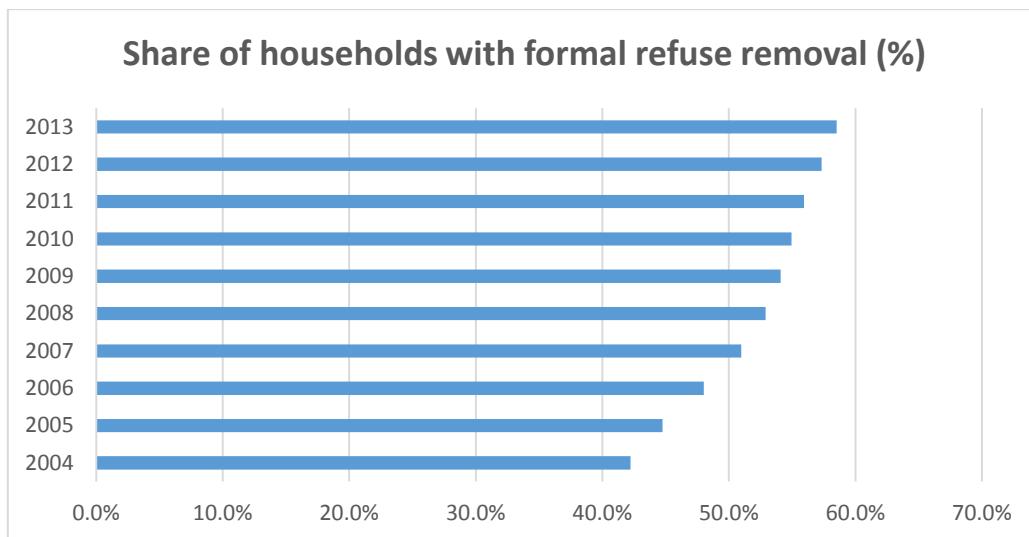


With respect to household electrification, in 2013 about 90% of the households in the municipality have electrical connections. The graph below depicts an upward trend in this area over a ten year period.





The share of households with formal refuse removal was at 2013 at 58%. This marks a 1% growth from 57% in 2012.



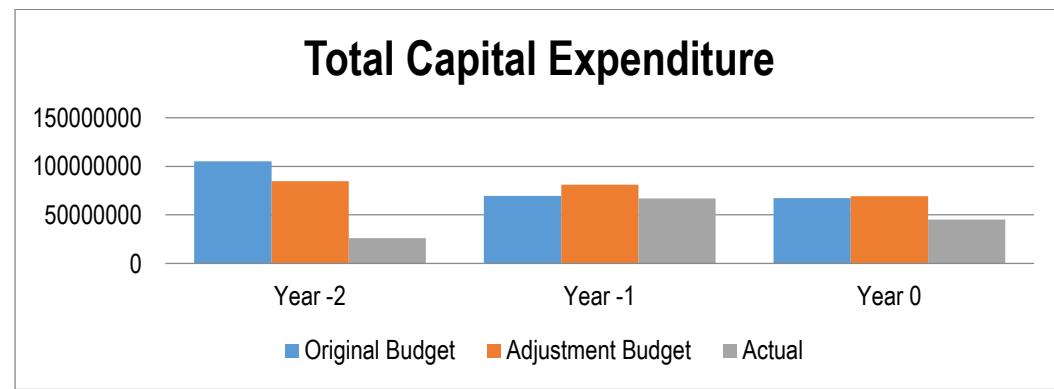
1.4. FINANCIAL HEALTH OVERVIEW

Financial Overview

Financial Overview: Year 0			
Details	Original budget	Adjustment Budget	Actual
Income:			
Grants	128,899	130593	120264
Taxes, Levies and tariffs	284652	285051	282826
Other	42661	65288	81832
Sub Total	456212	480932	484922
Less: Expenditure	456212	480932	347907
Net Total*	0	0	137015

Operating Ratios	
Detail	%
Employee Cost	34%
Repairs & Maintenance	2%
Finance Charges & Impairment	0%
T 1.4.3	

Total Capital Expenditure: Year -2 to Year 0			
Detail	Year -2	Year -1	Year 0
Original Budget	105151382	69661770	67361000
Adjustment Budget	84685162	80985147	69195500
Actual	25999927	66914429	45185019
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1.5. ORGANISATIONAL DEVELOPMENT OVERVIEW

During the year under review Lukhanji Municipality have 583 full time employees and 98 casual employment opportunities created. The organisational structure is under review after a long period without it being reviewed together with a Human Resources Plan for the Municipality. A formidable policy framework is in place through the assistance of South African Local Government Association (SALGA) , Provincial Department of Cooperative Governance and Traditional Affairs (Cogta). This policy framework is in the form of by-laws, policies and collective agreements.

Various structures have been established as prescribed by the policy framework in attempt to strengthen organisational development initiatives. These structures amongst other things focused on Labour Relations, Skills Development, Performance Management, Health and Safety at the workplace and other institutional arrangements.

1.6. AUDITOR GENERAL REPORT

In the year under review the municipality got a qualified opinion from the Auditor General. The basis of the opinion according to the AGSA was inability to gain sufficient evidence on a number of issues as contained in the report to be discussed in the subsequent chapters of this report. These areas include but not limited to:

- (a) Property, plant and equipment - The municipality did not account for its PPE in accordance with GRAP 17
- (b) Investment properties - The municipality did not account for its investment properties in accordance with GRAP 16
- (c) Irregular Expenditure – The Municipal processes and procedure to record irregular expenditure are insufficient
- (d) Revenue from exchange transactions - The municipality did not account for revenue from exchange transactions in accordance with GRAP 9



1.7. STATUTORY ANNUAL REPORT PROCESS

No	Activity	Timeframe
1	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period	July
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).	
3	Finalise the 4th quarter Report for previous financial year	
4	Submit draft year 0 Annual Report to Internal Audit and Auditor-General	
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)	August
8	Mayor tables the unaudited Annual Report	
9	Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General	
10	Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase	
11	Auditor General audits Annual Report including consolidated Annual Financial Statements and Performance data	September - October
12	Municipalities receive and start to address the Auditor General's comments	November
13	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report	
14	Audited Annual Report is made public and representation is invited	
15	Oversight Committee assesses Annual Report	
16	Council adopts Oversight report	December
17	Oversight report is made public	
18	Oversight report is submitted to relevant provincial councils	
19	Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input	January

The above timeframes and deadlines are critical in ensuring that the municipality is able to provide information about its planning, processes, and performance. Most of these time frames are statutory and Municipalities may not transgress as it would have huge implications on Municipal administration and political capabilities. They further act as a guide to manage the planning process and give adequate planning time for each process and ensure that each process receives enough information from a preceding phase/process.



CHAPTER 2 – GOVERNANCE

Good governance has 8 major characteristics namely, participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive which follows the rule of law. Through this corruption is minimized, the views of minorities are taken into account and the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.

COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE

2.1 POLITICAL GOVERNANCE

The council performs both legislative and executive functions, with focus on legislative, oversight and participatory roles, and has delegated its executive function to the Executive Mayor and the Mayoral Committee. Council's primary role is to debate issues publicly and also to facilitate political debate and discussion. Apart from their functions as decision makers, councillors are also actively involved in community work as well as various social programmes in the municipal area.



2.1.1. The Political Structure

No	Name and Position	Function
1	Cllr N Makanda – Executive Mayor	<ul style="list-style-type: none"> ⇒ To identify the needs of the municipality. ⇒ To review and evaluate those needs in order of priority. ⇒ To recommend strategies, programmes and services to address priority needs through the IDP and the estimate of revenue and expenditure taking into account national and provincial plans. ⇒ To recommend or determine the best way to deliver strategies, programmes and services to the maximum benefit of the community. ⇒ To identify and develop criteria to evaluate strategies, programmes and services mentioned in 3 above and to develop key performance indicators. ⇒ To evaluate progress against the key performance indicators. ⇒ Review the performance of the municipality in order to improve: <ul style="list-style-type: none"> ▪ The economic, efficiency and effectiveness of the municipality, ▪ Efficiency of credit control and revenue and debt collection services, and ▪ Implementation of the municipality by-laws. ⇒ To monitor the management of the municipality's administration. ⇒ To oversee the provision of services to the community in a sustainable manner. ⇒ To ensure community involvement in municipal matters by reporting on the following: <ul style="list-style-type: none"> -Annually reports on the involvement of community and community organizations in municipal affairs, -Ensure that regard is given to public views and report on the effect of consultation ⇒ Section 60 of the Structures Act provides that the Executive Mayor must appoint a mayoral committee amongst the Councillors if Council consists of more than nine members. In respect of the Mayoral Committee, the Executive Mayor has the following responsibilities: <ul style="list-style-type: none"> ▪ Chair the meetings of the Mayoral Committee. ▪ Oversee the preparation of the Mayoral Committee Agenda. ▪ May delegate specific responsibilities or powers to members of the Mayoral Committee. ▪ May dismiss a member of the Mayoral Committee. ▪ Ensure compliance with the Law including the rules of order, during Mayoral Committee meetings. ▪ Ensure that members of the Public are allowed in Mayoral Committees meetings.
2	Speaker: Cllr M Snyders	<ul style="list-style-type: none"> ⇒ Preside at the meetings of the Council; ⇒ Maintain order during Council meetings; ⇒ Ensure that Council meetings are conducted in accordance with Rules of Order of the Council; ⇒ Ensures that Councillors get adequate notices of meetings; ⇒ Ensure implementation of procedure with regard to quorums and compliance with section 30 of the Municipal Structures Act; ⇒ Allocate speaking time to members in accordance with the Council's policy;



		<ul style="list-style-type: none"> ⇒ Implement voting procedure in accordance with the Rules of Order and subject to the Municipal Structures Act; ⇒ Ensure that Councillors freedom of speech is protected; ⇒ Ensure that Councillors freedom of speech is exercised subject to council's Rules of Order; ⇒ Ensure and facilitate the admission of the public to council meetings; ⇒ Grant leave of absence to Councillors in accordance with council's Rules of Orders; ⇒ Guard against the abuse of councillor's privileges and interest and; ⇒ Maintain an attendance register.
3	Chief Whip: Cllr S. Dyantyi	<ul style="list-style-type: none"> ⇒ Political management of council meetings and committee meetings ⇒ Inform Councillors of meetings called by the Speaker and the Mayor and ensuring that such meetings quorate ⇒ Advises the Speaker and Mayor on the Council agenda ⇒ Informs Councillors on important matters on the relevant agenda ⇒ Advise the Speaker on the amount of time to be allocated to speakers and the order of such speakers addressing the Council ⇒ Ensures that Councillors' motions are prepared and timeously tabled in terms of the procedural rules of Council ⇒ Assisting the Speaker in the counting of votes ⇒ Advising the Speaker and the Mayor of urgent motions ⇒ Advising the Speaker and Mayor on how to deal with important items not disposed of at a Council meeting
4	Portfolio Head - Special Programmes Unit: Cllr T Jocki	<ul style="list-style-type: none"> ⇒ The Mayoral Committee Members assist the Executive Mayor, serve him/ her with advice and take decisions with the Executive Mayor in respect of designated powers. ⇒ The Mayoral Committee receives reports from the other committees of the council. The Executive committee considers these reports and disposes of those which the committee is authorised to do in terms of its delegated powers and forwards the remainder of the reports together with its recommendations to the municipal council for decision.
5	Portfolio Head - Technical Services: Cllr Z Gwantshu	
6	Portfolio Head - Administration & HR: Cllr B Van Heerden	
7	Portfolio Head - Budget & Treasury: Cllr Peter	
8	Portfolio Head Human Settlements: Cllr A Hulushe	
9	Portfolio Head - Community Services: Cllr M Dyan	
10	Portfolio Head IPED: Cllr: N Pambo	
11	Portfolio Head – Public Safety: Cllr Sopapazi-Lungisa	

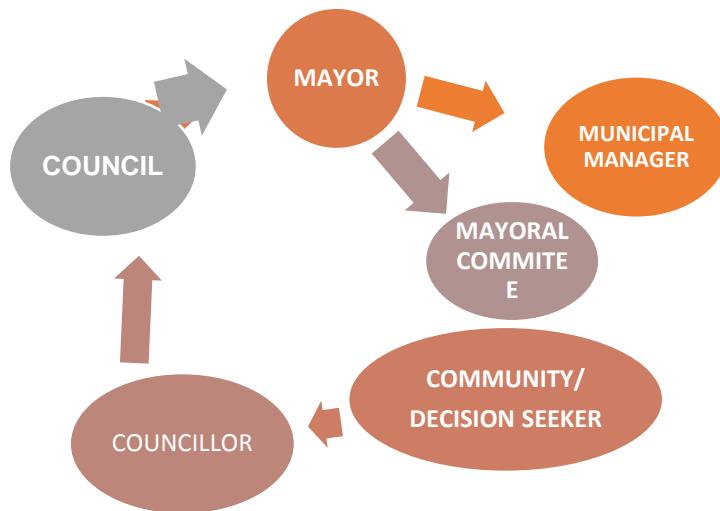
2.1.2. Councillor Profile

Below is a table that categorised the Councillors within their specific political parties and wards:

Councillor	Full Time (FT)/ Part Time (PT)	Committee Allocated		Ward/PR	% Council Attendance	% Apologies for non-
		01/07/12	01/01/13			
llr N Makanda	FT	Executive Mayor	Executive Mayor	ANC	100%	
llr M Snyders	FT	Speaker	Speaker	ANC	100%	
llr B Mngese	FT	P/Head (C/ Services)	P.Head (C/ Services)	ANC	100%	
llr AE Hulushe	FT	P/Head (HSLD)	New Incumbent	ANC	100%	
llr NC Pambo	FT	P/Head (T/Services	New Incumbent	ANC	100%	
llr M Peter	FT	P/Head (Finance)	New Incumbent	ANC	100%	
llr BG Van eerdens	FT	P/Head (Admin & HR)	P/Head (Admin & HR)	ANC	100%	
llr Basela	PT	P/Head (IPED)	New Incumbent	ANC	100%	
llr TM Jocki	FT	P/Head (SPU)	New Incumbent	ANC	100%	
llr Sopapasi	FT	P/Head (C/Safety)		ANC	100%	
llr ME Ndinise	FT	MPAC Chairperson		ANC	90%	10%
llr MV Blekiwe	PT			ANC	100%	
llr AV Bokuva	PT			ANC	50%	50%
llr FM Dayimani	PT			ANC	100%	
llr JC De Wet	PT			DA	100%	
llr FN Duda	PT			ANC	100%	
llr ML Dyan	PT			ANC	67%	33%
llr SR Dyantyi	PT			ANC	67%	33%
llr ZA Dywili	PT			ANC	100%	
llr SL Gaju	PT			ANC	83%	17%
llr MZ Gwantshu	FT	Portfolio Head (Technical Services) (24/02/2012- 31/01/2013) and Executive Mayor (31/01/2013- 08/08/2013)		ANC	100%	

llr TM Gxaba	PT			ANC	67%	33%
llr MS Hokolo	PT			UDM	83%	17%
llr M Jaska	PT			ANC	67%	33%
llr MZ Kalipa	PT			COPE	83%	17%
llr NE Kondlo	PT			ANC	83%	17%
llr NA Kopolo	PT			COPE	83%	17%
llr FS Lungisa	FT			ANC	100%	
llr PPZ Mandile	PT			DA	83%	17%
llr K Manzana-ovendle	PT			ANC	83%	17%
llr NL Maqungo	PT			ANC	83%	17%
llr MM Matiwane	FT	P/Head (Budget & Treasury) 31/01/2013		ANC	100%	
llr XP Mbasana	PT			ANC	50%	50%
llr N Mfundisi	PT			ANC	83%	17%
llr BM Mgoqi	PT			ANC	100%	
llr M Mnyaka	PT			ANC	100%	
llr TV Mpolo	PT			ANC	100%	
llr SE Mvana	PT			ANC	100%	
llr B Ndabambi	PT			ANC	83%	17%
llr MR Ndaliso	PT			ANC	83%	17%
llr SN Ndlebe	PT			ANC	100%	
llr M Ngesi	PT			ANC	100%	
llr DD Njozela	PT			ANC	83%	17%
llr NP Nquma	PT			ANC	83%	17%
llr NJ Qomoyi	PT			ANC	100%	
llr BG Rani	PT			ANC	83%	17%
llr LC Rasimosi	PT			ANC	100%	
llr JM Shaw	PT			DA	100%	
llr N Simama	PT			ANC	83%	17%
llr MN Siyo	PT			PAC	83%	17%
llr MJ Thole	PT			ANC	83%	17%
llr EN Tsetetsi	PT			ANC	83%	17%
llr ML Tyholo	PT			ANC	100%	
llr M Xhelisilo	PT			DA	100%	
llr NT Xulubana	PT			ANC	100%	

1.2.3 Decision making



2.2 ADMINISTRATIVE GOVERNANCE

The Municipal Manager is the Chief Accounting Officer of the Municipality. She is the head of the administration, and primarily has to serve as chief custodian of service delivery and implementation of political priorities. She is assisted by his direct reports, which constitutes the Management Team. A key priority of the Management Team has been to establish a solid leadership core within the organisation which permeates through to middle and supervisory management levels. The Management Team Structure is outlined in the table below:

Name of Official	Department	Performance agreement signed
		(Yes/No)
Nolwandle Gqiba	Municipal Manager	Yes
Nomthandazo Ntshanga	Chief Financial Officer	Yes
Donovan van Wyk	Strategic Executive Officer	Yes
Ronel Van Zyl	Acting Director Community Services	Yes
Lungi Gcina	Acting Director Human Settlements	Yes
George Zebalunge	Acting Director Technical Services	Yes
Siyabonga Nkonki	Director Administration & HR	Yes
Desomd Winnar	Acting Director Community safety	Yes
Luyanda Sondlo	Director IPED	Yes

COMPONENT B: COOPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS

2.3 INTERGOVERNMENTAL RELATIONS

Lukhanji co-ordinates the inter-governmental relations forum with all stakeholders in the area for planning, co-ordination, and reporting on service delivery programmes. This is where all sectors of the society and/or stakeholders come together for effective integrated planning and co-ordination of service delivery and where challenges are resolved in an amicable manner.

Provincial Intergovernmental Structure

The Executive Mayor participates in the Muni-MEC forum and that is where best practices are shared for all Municipalities and also there are pronouncements that are being made. The Communications Manager participates in the Provincial Communicators Forum and that is where lessons are learnt from each Municipality to ensure improvements in the local government communication system.

Relationships with Municipal Entities Lukhanji Municipality doesn't have an entity. District Intergovernmental Structures

The Executive Mayor participates in the DIMAFO meetings that are called on a quarterly basis and the Communications Manager participates in the District Communicators Forum meetings. The Municipality has recently launched a Local communication Forum.

COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION

The Municipal Systems Act, S51 (b): requires a municipality to establish and organise its administration to facilitate and a culture of accountability amongst its staff. S16 (i): states that a municipality must develop a system of municipal governance that complements formal representative governance with a system of participatory governance. S18 (i) (d): requires a municipality to supply its community with information concerning municipal governance, management and development. Lukhanji Municipality makes use of the Ward Committee structure with respect to public accountability and participation. The purpose of the Ward Committee structure is to assist Ward Councillors with organizing, consulting, spreading of information to encourage participation from residents within the Wards.

The Ward Committee:



- ⇒ Is an advisory Body.
- ⇒ Is a representative structure
- ⇒ Is a representative structure
- ⇒ Is independent; and
- ⇒ Must be impartial and perform its functions without fear, favour or prejudice.

There are 27 Wards within the Lukhanji Municipal area.

2.4 PUBLIC MEETINGS

The Lukhanji Municipality engages in different methodologies to ensure adequate public participation, which includes traditional public meetings, meeting with wards and ward committees, IDP and Budget Outreach meetings.

Such participation is required in terms of:

- The preparation, implementation and review of the IDP and budget;
- Establishment, implementation and review of the performance management system;
- Monitoring and reviewing of the performance which include the outcomes and the impact of such performance; and
- Setting of service level standards;
- Information sharing which relates to capital projects implementation.

The Lukhanji Municipality utilises its ward committees as the primary consultative structure and access point to ensure public participation and accountability.

During ward meetings the following issues were raised by the communities:

2014/15 NEEDS IDENTIFIED PER WARD

1. Needs identified per ward

Wards	Key Priority and Priority Needs	Specific area
1	1. High Mast Lights	
	2. Gravel each roads / main	
	3. Roads / Fence	
	4. Xonxa project of Water	
	5. Primary health Care	



Wards	Key Priority and Priority Needs	Specific area
	6. Houses and Electricity 7. Land for agricultural purposes 8. Sanitation 9. Safety / Police Station 10. School 11. New site for cemetery 12. Rebuilding of old Transkei houses 13. New water pipes 14. Storm water drainage 15. Upgrading of External and Internal road 16. Shearing shed and dipping tank 17. Fencing of sewerage 18. Refuse tank	
2.	1. Housing 2. Water and Sanitation 3. High mast lights 4. Cemetery 5. Internal Road 6. Stadium / Sports field 7. Library 8. Mini hospital 9. Phase 3 of Storm water 10. Taxi rank 11. Surfacing of road 12. New Septic tanks Nomzamo 13. Toilet in the hall	
3	1. Completion of the hallsx2 & telecentre[toilets&fencing] 2. Bridges-nomentyu;mfenyane;koppies7mamfeneni 3. Access roads & stormwater 4. Water &sanitation 5. High mast lights 6. Fencing of mielie fields; grazing land&ranger 7. Sport fields 8. Irrigation scheme&revitalisation of qonobeni dam 9. Shearing shed[under construction] 10. Sign boards &direction boards 11. Pre-schools 12. RDP houses 13. Clinic	



Wards	Key Priority and Priority Needs	Specific area
	14. Revitalisation of the dam in Qunubeni	
4	1. Multi-purpose Recreation Grounds	All areas in the ward
	2. Tar roads	All areas in the ward
	3. High Mast lights	
	4. RDP Houses	
	5. Storm water drainage	In all areas in the ward
	6. Youth hub	Rent office
	7. Clinic	Next to Faltenju
	8. Surfacing of gravel roads to the Municipal Offices	
	9. Upgrading/increasing of dams for water as the people have increased	
	10. Refuse tank	
	11. Request that the street cleaners be supervised	
	12. Request to inform the community when the water will be disconnected.	
	13. Issue of the control of taxi rank	
	14. Issue of the control of taverns	
	15. Request for a town hall	Ext.4
	16. Issue of municipal employees selling RDP houses	
	17. Request the town be developed so that they can pay municipal services	
	18. Cutting of grass at ext. 2 because of criminal activities that are taking place	
	19. Request primary school at ext.4	
	20. Fencing of tip site.	
	21. Fencing of dam	
	22. Grazing camp	
	23. upgrading of gravel roads and storm water drainage	Ezibeleni
	24. New transformers with high capacity be bought	Ezibeleni
	25. Refuse collection be done	Ezibeleni
	26. Policy be reviewed for the collection of rates/rate be paid in 12 months	Ezibeleni
	27. Why does the community in Ezibeleni pay rates whereas they are not properly serviced?	Ezibeleni
	28. Rangers be employed to collect the cows on the streets.	Ezibeleni
5	1. Basic water	All the ward
	2. Shearing shed	
	3. Fencing of camps& fields	Mbekweni, Ngojini, Shiloh, Dyamala
	4. RDP Houses	All the ward
	5. Speed humps	All the ward
	6. Roads and access road	Shilo, All the ward
	7. Irrigation Scheme	Ngojini, Diphala, Mbekweni
	8. Renovation irrigation dam	Sibonile
	9. High mast lights	Sibonile, Diphala, Ngojini, Mbekweni, Dyamala
	10. Fencing of cemeteries and toilets	All the ward
	11. Electrification – clinics / schools	Clermont and Galla Water, Gallawater Ngojini, Clemont



Wards	Key Priority and Priority Needs	Specific area
6	1. Storm water 2. Water drainage 3. Street lights 4. Playing grounds 5. High mast lights 6. Speed humps 7. Roads/gravel seal 8. Grass cutting 9. Grass cutting 10. Grass cutting 11. Community hall 12. Fencing of fields	OR Tambo ezibeleni Minah T Soga, OR Tambo, Zenzo Queensview Park;komani Park;Laurie dashwood Queensview Park OR;Queensview;Zenzo & Minah Hoho str Minah area OR;Zenzo;&Minah Komani Park; Queensview park area Sandringam, Laurie Dasi Wood area Olivier Tambo Komani Park&Queensview
7	1.High mast lights 2.Gravel roads &storm water 3.Tarring &humps in the main road 4.Clinic &police station 5.Maintain &put a new bridge 6.Recreation centre 7.200 chairs for Unathi support centre 8.Remove big stones close electricity boxes or dangers 9.Put water main pipe for 60 houses 10.Houses	
8	1. Roads / Tarred 2. High Mast Lights 3. Recreational ground 4. Toilets / Taps 5. Storm water 6. Youth hub 7. Speed humps 8. Street lights 9. Information centre 10. Sport field 11. upgrading of gravel roads and storm water drainage 12. New transformers with high capacity be bought 13. Refuse collection be done 14. Policy be reviewed for the collection of rates/rate be paid in 12 months 15. Why does the community in Ezibeleni pay rates whereas they are not properly serviced? 16. Rangers be employed to collect the cows on the streets.	All Ward All Ward All ward Pakamisa Park Zone 1 All ward Zone 1, Zone 2 Zone 1, Zone 2 All ward Zone 2 Ward 8 / Zone 2 Ezibeleni Ezibeleni Ezibeleni Ezibeleni Ezibeleni Ezibeleni
9	1. Job creation 2. Chronic Site (Clinic) 3. Road signs 4. Sport fields	All the ward Gugulethu Clinic All the ward Mhlotshana and Luvuyo



Wards	Key Priority and Priority Needs	Specific area
10	1. Roads	
	2. High Mast	
	3. Houses	
	4. Storm water	
	5. Rectification of wooden / zink houses	
	6. Street lights	
	7. Stadium	
	8. Youth centre	
11	1. RDP Houses	Madakeni
	2. Access roads	All the ward
	3. Sport grounds	All the ward
	4. High mast lights	Madakeni, New Zone, Zola
	5. Fencing of camps	3 villages
	6. Clinic	One of the villages
	7. Rectification	Zola
	8. Water	2 villages
	9. Remove rubbish dumps	New Zone / Zola
	10. Public toilets ingrave	3 villages
12	1. Access roads	Tarred from Dyamala katberg
	2. Brigdes	Mtwakazi;Hackney;Zweledinga;Chibini
	3. D.R Roads	Whole ward
	4. Lapesi	Chibini;Hackney;Chibini;Cimezile,Zweledinga;Yonda and Bold point
	5. Clinic	Moswa and Mtwakazi
	6. Network poles	Chibini;Hackney and Mtwakazi
	7. Fencing of grazing camps	All the ward
	8. Tractors for ploughing	All the ward
	9. Electrical water pump	Whole ward
	10. Jojo tanks	Qaqeni and Yonda
	11. High mast lights	Whole ward
	12. R>DP houses	Whole ward
	13. Toilets	5 villages
	14. Irrigation schemes	
	15. Wind mills	
13	1. Water	13
	2. Roads	13
	3. Sanitation	13
	4. School (foundation phase)	Hensam
	5. Hall	13
	6. Electricity	Tsitsikama
	7. RDP Houses	13
	8. Clinics	13
	9. Fencing , agricultural project, dam, grazing land	13
	10. Dipping tank	13
	11. High mast lights	
	12. Revitalisation of storm water drains	Ntabelanga and Bullhoek
	13. Library	
	14. Furrow	
14	1. Water	All



Wards	Key Priority and Priority Needs	Specific area
15	2. Roads	All
	3. Houses	Kamastone Bullhoek, Mceula Zanqgokhwe
	4. Agriculture Programme	All
	5. Clinics	Mceula
	6. Schools	Enzam
	7. High Masts	Enzam&poplar grove
	8. Storm water	All villages
	9. Bridges	Bullhoek&Mcbride
	10. Community Hall	Enzam Poplar Grove, Zanqgokhwe;mcbride
	1. High Mast lights	Whole ward
16	2. Tarred roads	Whole ward
	3. Proper drainage	Whole ward
	4. Youth hub	Rent office
	5. Fencing – grazing land	Rail to cemetery
	6. Sport fields	Ezibeleni
	7. Children play grounds	Open spaces
	8. Ekuphumleni Housing	Ekuphumleni
	9. Information Centre	Library
	10. Shopping Mall	Ezibeleni
	11. New transformers with high capacity be bought	
	12. Refuse collection be done	
	13. Policy be reviewed for the collection of rates/rate be paid in 12 months	
	14. Why does the community in Ezibeleni pay rates whereas they are not properly serviced?	
	15. Rangers be employed to collect the cows on the streets.	
16	1. Roads and Speed Humps	Ekuphumleni, Zone 1, 2 and 3
	2. Houses	Ekuphumleni, Zone 1, 2 and 3
	3. Remove rubbish dumps	Ekuphumleni, Zone 1, 2 and 3
	4. Sports ground	Ekuphumleni, Zone 1, 2 and 3
	5. Learniship Skills training	Ekuphumleni, Zone 1, 2 and 3
	6. Fix street light	Ekuphumleni, Zone 1, 2 and 3
	7. Raise and Strengthen graveyard fence	Ekuphumleni, Zone 1, 2 and 3
	8. Small business needed by people in Ward 16	Ekuphumleni, Zone 1, 2 and 3
	9. High Mast lights	Ekuphumleni, Zone 1, 2 and 3
	10. Public toilets for shack area	Ekuphumleni, Zone 1, 2 and 3
17	1. Shearing shed	Braakloof
	2. Electrification and street lights	Braakloof ext 2
	3. water	Braakloof; Tambo; Ext2
	4. Fencing	Braakloof; Tambo
	5. Roads	Tambo; Ext 4
	6. Clinic	Tambo Ext 2
	7. Storm water	Ext 4
	8. Houses	Ext 4; Ext 2



Wards	Key Priority and Priority Needs	Specific area
	9. Community hall	Ext 4;Ext 2
	10. Deeping tank	Ext 4
	11. Park	Ext 2
	12. Connection of sewer	Ext 2
18	1. Roads	
	2. Houses	
	3. Water	
	4. Building of dams	
	5. Clinic	
	6. School	Merino walk
	7. Fencing of camps	
	9. Pre-schools	
	10. Sports fields	
	11. Community hall	
	12. Monitoring of employment	
	13. Storm water drainage	
	14. Cemetery	
	15. High mast lights	
	16. Unfinished toilets	Merino walk
	17. Bridge	Merino walk
19	1. Rectification – rebuilding of RDP Houses	New vale Area
	2. Upgrading and Construction of new roads	Newvale Area
	3. Changing of electricity – preferable underground cables	Newvale Area
	4. Storm water – install drainage system	All the ward
	5. Shortage of RDP houses	All the ward
	6. Police station or satellite because of high crime rate	
	7. Park or Playing fields	All the ward
	8. Creche	
	9. Community members from ward 19 were not employed in the project of upgrading the cemetery but the stones were taken from their ward	
	10. Increase in the municipal account	
20	1. RDP Houses and toilets	
	2. Upgrade of Streets	
	3. Crèche	
	4. Community Hall	
	5. Playing grounds and Parks	
	6. Storm water drainage	
	7. Valley and Dust bin	
	8. Electric theft rate	
	9. Crime rate	
	10. Refuse collection on holidays	
21	1. Tar roads	
	2. Sewerage and storm water drains	
	3. Housing	



Wards	Key Priority and Priority Needs	Specific area
	4. Fencing – Mlungisi cemetery 5. Addressing unemployment through LED 6. Address crime rate 7. New electricity meter boxes 8. Maintenance of high mast lights	
22	1. Rehabilitation of sanitation 2. House for back yard 3. Roads gravel seal 4. Bridge 5. Sport facility 6. Rehabilitation of houses 7. Humps 8. Toilets 9. Rehabilitation of Old Houses 10. Repair of High Mast lights	White city White city White city, New Vale Aloe Between Aloe and Aloe Vale White city New Vale Ngoma street, White city Aloe T White City White city
23	1. Building of old houses Old location 2. Building of RDP Houses 3. Tar roads 4. Storm water drains 5. Pot holes 6. High mast 7. 24 hours – Philani clinic	Thulandivile / Bede / Bulawayo / Bongweni All streets at Mlungisi Mlungisi All street Public roads All areas Philani New Bright
24	1. Housing 2. High mast lights 3. Street lights 4. Humps 5. Old Age clinic 6. Storm water drainage 7. Improvement of Boxing centre 8. Tarred road and streets maintenance 9. Lights 11. Municipal accounts have increased 12. Employment for the youth 8. Creation of job opportunities for the disabled people	All ward Bede Location Dolamba Street Bede Location All ward New Bright All ward Calderhood street and Pelem road All ward
25	1. Reconstruction of Nkululekweni 2. Housing all areas 3. Tarred roads&surfacing all areas	Komani heights All areas



Wards	Key Priority and Priority Needs	Specific area
	4. Pre-school[zwelitsha]	Nkululekweni
	5. Storm water[all areas]	Zwelitsha
	6. Servicing of high mast lights all areas	All areas
	7. Pot holes & humps	Westbourne, Kings Park, Madeira
	8. Fixing of electricity problems	Madeira, Kings Park, Westbourne
	9. Stone pitch in the farrow behind Mlungisi cemetery	
	10. Housing	
	11.	
	9.	
	10.	
	11.	
	12.	
26	1. Roads and bridges fix	Zingquthu
	2. Water supply fix	Zingquthu
	3. Portholes fix	All
	4. Street lights and traffic signs fix	All
	5. Roads – Cleaning of Storm water drains	All
	6. Fix curbing	All
	7. Cutting, cleaning of sidewalks and public spaces	All
	8. Clean litter	All
	9. Painting of curbing's and street signs etc	All
	10. Fix pavements, replace old water pipes	All
27	1. Water	Lessyton, Zola, Engojini, Xuma, Tabata, Toiskraal
	2. Surfacing of Roads	Lesseyton Area, Toiskraal
	3. RDP Houses	Lesseyton, Zola, Toiskraal
	4. High Mast lights	Lesseyton, Zola, Toiskraal
	5. Crèche, Pre-School	Lesseyton area, Toiskraal (7 Total)
	6. Poultry Project	Toiskraal
	7. Sport field stadium	Lesseyton
	8. Small business Centre	Lesseyton
	9. Fencing	Lesseyton ploughing field
	10. Cemeteries	
	11. Toilets and Sanitation	
	12. Job creation	
	13. Transfer station that is not working	



2.5 IDP PARTICIPATION AND ALIGNMENT

IDP Participation and Alignment Criteria*	Yes/No
Does the municipality have impact, outcome, input, output indicators?	Yes
Does the IDP have priorities, objectives, KPIs, development strategies?	Yes
Does the IDP have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	Yes
Do the IDP KPIs align to the Section 57 Managers	Yes
Do the IDP KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the IDP KPIs align with the provincial KPIs on the 12 Outcomes	Yes
Were the indicators communicated to the public?	Yes
Were the four quarter aligned reports submitted within stipulated time frames?	Yes

* Section 26 *Municipal Systems Act 2000*



COMPONENT D: CORPORATE GOVERNANCE

Corporate governance is the set of processes, practices, policies, laws and stakeholders affecting the way an institution is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the institution is governed.

2.6 AUDIT AND RISK MANAGEMENT

AUDIT COMMITTEE

Section 166(2) of the MFMA states that an audit committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, on matters relating to –

- Internal financial control;
- Risk management;
- performance management; and
- Effective governance.

The Audit Committee has the following main functions as prescribed in section 166 (2) (a-e) of the Municipal Finance Management Act, 2003, Local Government Municipal and Performance Management Regulation, 2001 and the office of the Auditor-General:

- To advise the Council on all matters related to compliance and effective governance;
- To review the annual financial statements to provide Council with an authoritative and credible view of the financial position of the municipality, its efficiency and its overall level of compliance with the MFMA, the annual DORA and other applicable legislation;
- Respond to the council on any issues raised by the Auditor-General in the audit report;
- To review the quarterly reports submitted to it by the internal audit;
- To evaluate audit reports pertaining to financial, administrative and technical systems;
- The compilation of reports to Council, at least twice during a financial year;
- To review the performance management system and make recommendations in this regard to Council;
- To identify major risks to which Council is exposed and determine the extent to which risks have been minimized;
- To review the annual report of the municipality;
- Review the plans of the Internal Audit function and in so doing; ensure that the plan addresses the high-risk areas and ensure that adequate resources are available.
- Provide support to the Internal Audit function.
- Ensure that no restrictions or limitations are placed on the Internal Audit section



2.7 ANTI-CORRUPTION AND FRAUD

The municipality has established a system to fight fraud and corruption as per the MFMA and appropriate regulations as issued by the National Treasury.

2.8 SUPPLY CHAIN MANAGEMENT

SCM policy in place and implemented, however there is a generally adherence to it. SCM unit is in existence and operational. It has 5 full time personnel and 3 interns operating in the unit.

As per the AGSA report challenges had been identified from the unit, the remedial action was to increase the capacity of the unit. This remedial action has been implemented.

2.9 BY-LAWS

Section 11 of the MSA gives municipal Councils the executive and legislative authority to pass and implement by-laws and policies. 3 by-laws were approved during the period under review.

2.10 WEBSITES

Municipal Website: Content and Currency of Material		
Documents published on the Municipality's / Entity's Website	Yes / No	Publishing Date
Current annual and adjustments budgets and all budget-related documents	Yes	
All current budget-related policies	Yes	
The previous annual report (Year -1)	Yes	
The annual report (Year 0) published/to be published	Yes	
All current performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act (Year 0) and resulting scorecards	Yes	
All service delivery agreements (Year 0)	Yes	
All long-term borrowing contracts (Year 0)	Yes	
All supply chain management contracts above a prescribed value (give value) for Year 0	Yes	
An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during Year 1	Yes	
Contracts agreed in Year 0 to which subsection (1) of section 33 apply, subject to subsection (3) of that section	Yes	
Public-private partnership agreements referred to in section 120 made in Year 0	Yes	
All quarterly reports tabled in the council in terms of section 52 (d) during Year 0	Yes	
<p><i>Note: MFMA s75 sets out the information that a municipality must include in its website as detailed above. Municipalities are, of course encouraged to use their websites more extensively than this to keep their community and stakeholders abreast of service delivery arrangements and municipal developments.</i></p>		
T 2.10.1		



2.11 PUBLIC SATISFACTION ON MUNICIPAL SERVICES

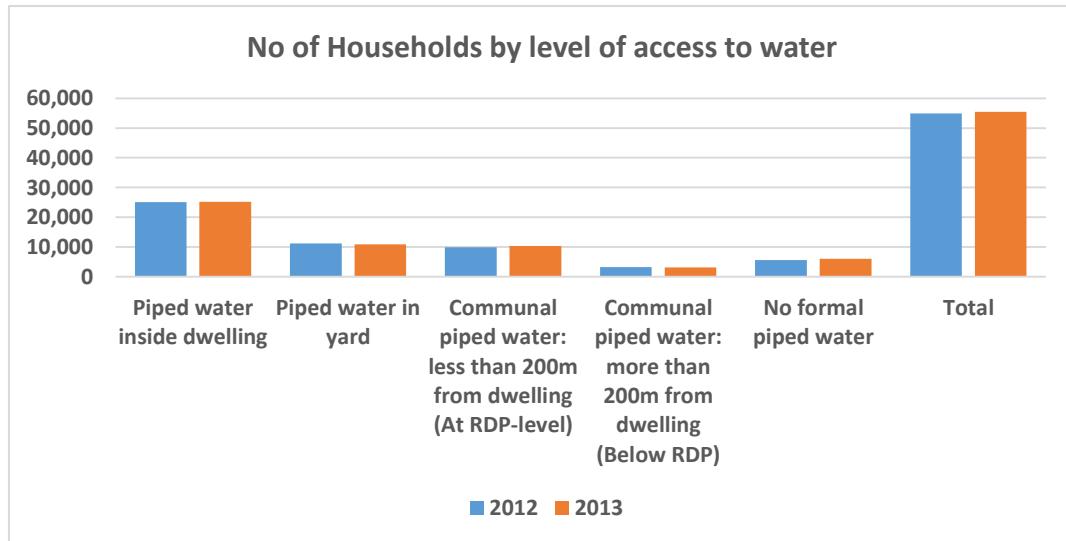
The municipality engages on a continuous basis the citizens through various structures on service delivery issues like the IDP roadshows, ward committee meetings, ward meetings and Mayoral Outreachs. Going forward the municipality will embark on citizen satisfaction surveys as an add on to the current measures to engage citizens.

CHAPTER 3 – SERVICE DELIVERY PERFORMANCE (PERFORMANCE REPORT PART I)

COMPONENT A: BASIC SERVICES

3.1 WATER PROVISION

As outlined in the executive summary, the municipality has experienced a gradual improvement in the delivery of services. The graphs below provide evidence to this claim.



In terms of the powers and functions, the municipality is a water service provider acting as an agent of the water service authority which is Chris Hani District Municipality. Both institutions entered into a service level agreement on how the operations and the costs thereof will be managed, the agreement is renewable every two years. It also includes acting as a revenue collector of the district municipality which the municipality pays over to the district at the end of each financial year.

The district is responsible for all costs relating to water and sanitation services which the municipality provides to the community.

Lukhanji LM entered into a 25 year contract with Water and Sanitation Services of South Africa. The contract is coming to an end in May 2017. Chris Hani District Municipality decided to take over the function from the municipality as at 01 July 2014. This includes the provision of infrastructure and maintenance thereof.

The institution had its own personnel responsible (Community Service Providers – 40; Borehole operators – 85; Casuals responsible treatment works and others on networks – 34; Interns – 17; Contract workers – 8; Water Quality Technician – 1) for water and sanitation the district also has personnel allocated to the municipality.

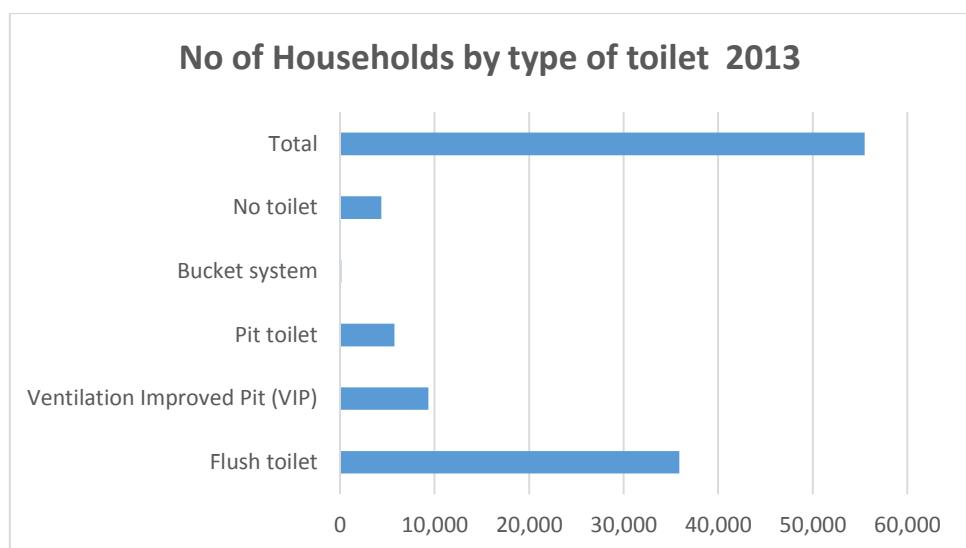
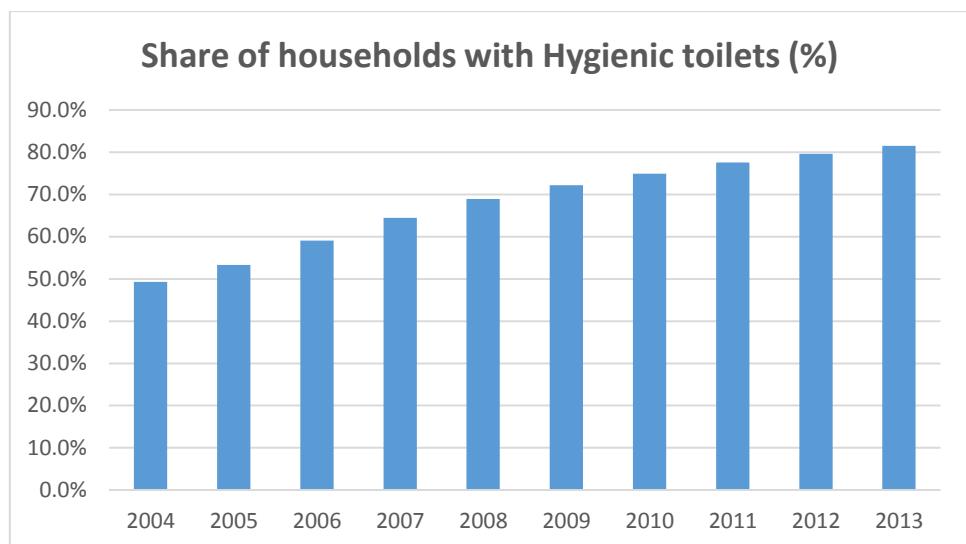
Community service providers – 39; borehole operators – 86; casuals responsible for treatment works and others on network – 36; Learnership interns – 9; contract workers – 8; water quality technician – 1; financial controller – 1; Operating and Maintenance technician – 1

Details	Financial Performance Year 0: Water Services					R'000
	Year 0					
Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget		
Total Operational Revenue	71168759	64894435	64594435	74102182	12%	
Expenditure:						
Employees	7552245	12486876	11383202	8047041	-55%	
Repairs and Maintenance	2999230	5171234	3453234	3066740	-69%	
Other	58649512	43598636	59154727	59081934	26%	
Total Operational Expenditure	69200987	61256746	73991163	70195715	13%	
Net Operational Expenditure	-1967772	-3637689	9396728	-3906467	7%	

3.2 WASTE WATER (SANITATION) PROVISION

Households - Solid Waste Service Delivery Levels below the minimum





Sanitation is not the competence of the municipality; it is the function of the Chris Hani District Municipality. Sanitation backlogs remain higher than that of water in especially the rural areas. The falling behind of basic sanitation is attributable to slow processes of VIP implementation in the last five years compared to water.

Chris Hani District Municipality (CHDM) is the Water Services Authority (WSA) whilst Lukhanji LM is a Water Services Provider (WSP). The primary responsibility of ensuring that, local people have access to water and sanitation rests with CHDM. Lukhanji Municipality was responsible for operation and maintenance of the water and sanitation network. The operation and maintenance of the water and sanitation network was fully funded by the water and sanitation subsidy.

Water and Solutions Southern Africa (WSSA) was a service provider operating and maintaining the network on behalf of the Municipality in a long term contract. The contract expires in 2017 and covers suburbs of Queenstown, Ezibeleni and Mlungisi townships. As part of the contract WSSA replaces 2, 5km of the ageing water pipes annually. The district took over the function from Lukhanji Local Municipality on 01 July 2015.

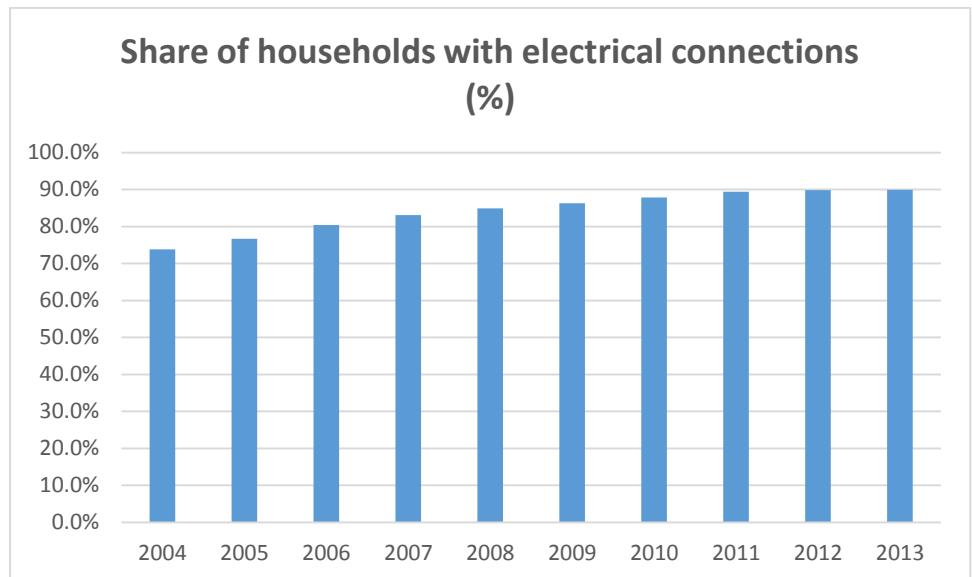


Water for Queenstown is imported from Waterdam Dam and blended with water from Bonkolo Dam. Boreholes augment the water supply. The importing of water to Queenstown from Waterdam Dam leaves Whittlesea with inadequate water supply. To address this problem and service the poorly serviced Ilinge Township, a project to supply Queenstown with water from Xonxa Dam is being undertaken by the CHDM. The implementation of the project is slow as it requires well over R350 million capital funding. A further R223 million is required to supply bulk water supply to the proposed settlement of New Rathwick.

Financial Performance Year 0: Sanitation Services					
Details	Year -1	Year 0			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	24566320	34431682	25624208	27199684	-27%
Expenditure:					
Employees	2853324	3258054	3071478	3130208	-4%
Repairs and Maintenance	4498250	6253560	3466917	3100690	-102%
Other	10002545	14222341	9690084	10669767	-33%
Total Operational Expenditure	17354119	23733955	16228479	16900665	-40%
Net Operational Expenditure	-7212201	-10697727	-9395729	-10299019	-4%



3.3 ELECTRICITY



Number of households by electricity usage Electricity for lighting only		Number of households by electricity usage Electricity for lighting and other purposes
Year	No of Households	No of Households
2004	20 305	14 599
2005	19 100	17 811
2006	17 218	22 455
2007	14 458	27 838
2008	11 011	33 507
2009	9 767	36 390
2010	8 829	38 497
2011	8 537	39 916
2012	7 143	42 166
2013	6 034	43 886

The following are the functions of the municipality with regards to provision of electricity in the area:

- ⇒ Repairs and maintenance of all existing electrical networks within the Ezibeleni, Mlungisi and Queenstown;
- ⇒ Provision of new networks required in the same areas;
- ⇒ Daily provision of electrical connections to new customers;
- ⇒ Provision of a support service to the BTO in terms of disconnections and reconnections of defaulted customers.



Electricity Master Plan

The electricity master plan was approved by the Council in around October 2013.

During the 2014/15 FY an amount of R14 million went to the implementation of the electricity master plan..

The master plan intends addressing the following points:

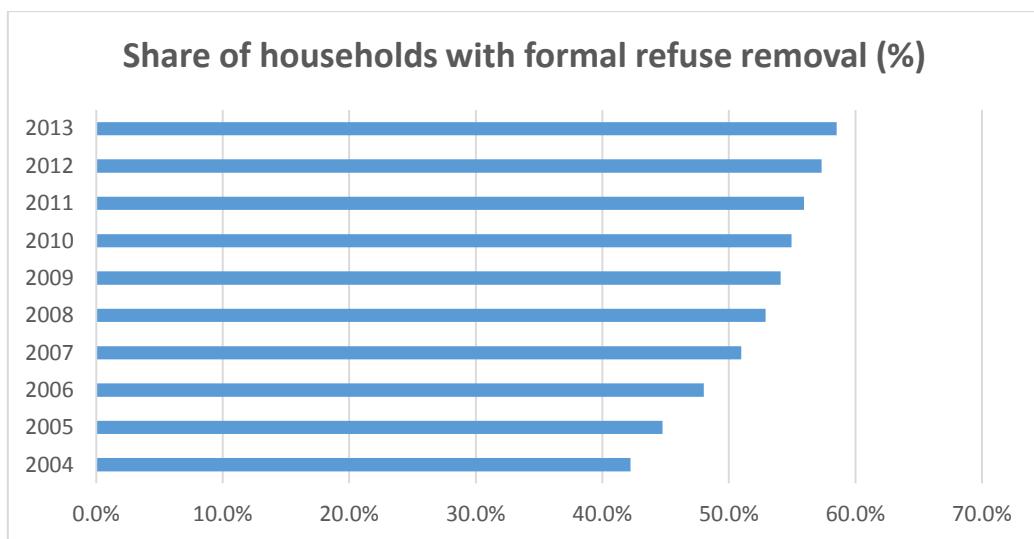
- Upgrading and refurbishment of old and aging electrical infrastructure
- Providing capacity in areas experiencing serious overload conditions in Ezibeleni, Mlungisi and Queenstown CBD, as a result of among others electricity tamper.

Financial Performance Year 0: Electricity Services					
Details	Year -1	Year 0			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	158747255	173959001	190733916	168647154	-3%
Expenditure:					
Employees	6558235	7649785	7877841	7488236	-2%
Repairs and Maintenance	2452278	2964300	2926300	2963587	0%
Other	165249663	170287176	194301691	195275238	13%
Total Operational Expenditure	174260176	180901261	205105832	205727061	12%
Net Operational Expenditure	15512921	6942260	14371916	37079907	81%

3.4 WASTE MANAGEMENT (THIS SECTION TO INCLUDE: REFUSE COLLECTIONS, WASTE DISPOSAL, STREET CLEANING AND RECYCLING)

Number of households by access to refuse removal		
Types of Access to refuse removal	2012	2013
Removed weekly by authority	30 314	31 339
Removed less often than weekly by authority	1 161	1 137
Removed by community members	699	839
Personal removal (own dump)	20 686	20 082
No refuse removal	2 046	2 098
Total	54 906	55 496





Solid waste management, with the exception of hazardous waste is a competency of local government. In order to deliver this service local municipalities are required to have a council adopted Waste Management Plan which will guide a municipal wide waste management service.

Domestic and some commercial waste

According to the Census 2001 data there are few areas in Lukhanji where the Municipality provides waste collection services. It is mainly the urban centres of Queenstown and Whittlesea that waste collection services are provided. The vast majority of the households in Lukhanji LM (60%) receive waste collection service. The remaining 36% of households either dump themselves (31%) or receive no service (5%).

The following table provides Community Survey 2007 data for waste collection services in Lukhanji LM.

Lukhanji LM-Refuse disposal (Community Survey 2007)

Waste disposal	Households	%
Removed by local authority/private company at least once a week	29,740	59.87
Removed by local authority/private company less often	225	0.45
Communal refuse dump	908	1.83
Own refuse dump	15,372	30.95
No rubbish disposal	2,704	5.44
Other	726	1.46
Total	49,675	100.00



Waste recycled or minimization

While there is some limited recycling of cardboard, glass, plastics, etc. in Queenstown and Whittle sea, these activities are limited. In addition, there is no evidence of recycling of any measurable quantities of commercial, industrial, medical and hazardous waste generation in Lukhanji LM.

Current waste categories and characteristics in Lukhanji Municipality

Waste generated in Lukhanji LM can generally be categorised as follows:

- ✓ **General domestic waste:** This consists of paper, plastic, metal, glass, putrescible / food waste, garden refuse and building rubble.
- ✓ **Commercial waste:** This waste is produced in insignificant quantities in the area and can also be categorized as general waste. Commercial wastes identified in the area include used cooking oil from restaurants and takeaways
- ✓ **Industrial waste:** This waste is derived from industrial activities.
- ✓ **Medical waste:** This includes hazardous medical waste such as sharps, infectious waste.
- ✓ **Hazardous waste:** Includes waste such as sewage sludge, oil from workshops and putrescible organic matter.
- ✓ **Agricultural waste:** Includes combination of the above, but could also include waste such as pesticide, herbicide and fertilizer residues and containers.

Municipal Land Fill sites

The Lukhanji Municipality has one operating solid waste landfill site in Queenstown and there is a permit to that effect and one tip site in Whittlesea. The Municipal landfill site in Queenstown is licensed and the transfer stations in other areas do not require permits because of the size. The Municipality is removing refuse once or twice a week in households.



Financial Performance Year 0: Solid Waste Management Services					
Details	Year -1	Year 0			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	37882547	38761893	39425353	45226276	14%
Expenditure:					
Employees	13599263	17757646	16698285	14762529	-20%
Repairs and Maintenance	1443255	1935776	1685776	1453765	-33%
Other	17444285	18020170	18272169	18783279	4%
Total Operational Expenditure	32486803	37713592	36656230	34999573	-8%
Net Operational Expenditure	-5395744	-1048301	-2769123	-10226703	90%

3.5 HOUSING

The Lukhanji Municipality IDP states that the demand for housing in the Municipality is estimated to be approximately 40 000 units. Approximately 99% of the applicants fall within the income range of R0 – R2500. This only relates to beneficiaries who qualify for the give-away housing subsidy schemes.

INCOME GROUP	% OF TOTAL	ESTIMATED NO OF UNITS
R0-R1500.00	97	38 880 units
R1501-R2500	2%	800 units
R2501-R3500	1%	320 units
Total	100	40 000 units

The municipality has a housing waiting list and provides an analysis of the potential beneficiaries based on current accommodation as follows:

DEMAND BY CURRENT ACCOMMODATION	% OF TOTAL	ESTIMATED NO. OF UNITS
Backyard Shacks	5%	200
Renting	13%	5200
Stay in Family House	34%	13600
Informal Settlement	46%	18400
Desire to Own Property	2%	800

The housing backlog figures furthermore merely provide a bulk estimate *viz.* no distinction has been made between rural and urban housing demand. It is therefore vital to determine



the breakdown and subsequent distinction between the urban and rural housing demand in order to determine the type of housing units required.

Details of the housing waiting list indicates a total of 100 903 applicants will require housing in future. This includes the disabled, new applicants, those requiring formalization / upgrading, those to be relocated from backyard shacks, etc.

3.6 FREE BASIC SERVICES AND INDIGENT SUPPORT

The municipality has a policy on indigent and has provided services and support to the indigents in line with its policies and in the context of its budget and resources. The table below shows the number of households that benefited from the free basic services programme from the municipality. The free basic services provided were water (19%), electricity (36%), sanitation (19%) and refuse (19%).

Free Basic Services To Low Income Households										
	Total	Number of households								
		Households earning less than R1,100 per month								
		Free Basic Water		Free Basic Sanitation		Free Basic Electricity		Free Basic Refuse		
	Total	Total	Access	%	Access	%	Access	%	Access	%
Year - 2	43 000	26 784	5 793	32%	5 793	32%	9 405	52%	5 793	32%
Year - 1	43 000	21 139	4 451	24%	4 451	24%	7 786	42%	4 451	24%
Year 0	43 000	16 716	3 571	19%	3 571	19%	6 003	36%	3 571	19%



COMPONENT B: ROAD TRANSPORT

3.7 ROADS

The Department of Roads and Public Works contracted a service provider to assess all the Local Roads, provincial roads, National Roads in terms of the classification, and condition assessment.

The programme is called Rural Roads Asset Management System (RRAMS). The purpose is to assist municipalities to have a predetermination of the allocation of the MIG funding. This will be applicable from 15/16 F/Y. From then onwards no municipalities will be allocated MIG funding for roads if the roads are not forming part of the programme

The District municipalities receive the RRAMS grant to undertake the programme with DRPW.

Roads audit (condition assessment and classification) is done to all the Eastern Cape municipalities; an inventory has been compiled to make LM GRAP compliant. Progress report on the work done thus far was presented to CHDM local municipalities on 12 March 2014. The only task left is to approve the classification process of the RRAMS if it belongs to National, Provincial and Local; RISFSA class is correct, Pavement condition is correct. The confirmation of the classification is anticipated to be complete by December 2015.



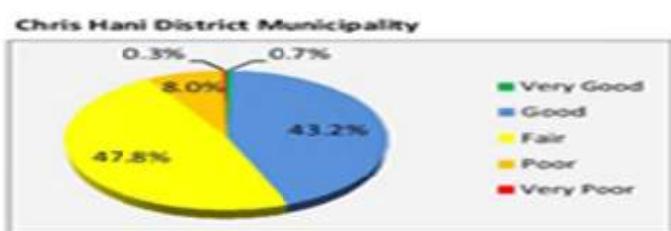
Figure L1 – Transport infrastructure projects Queenstown, Ilinge, and Ekuphumleni

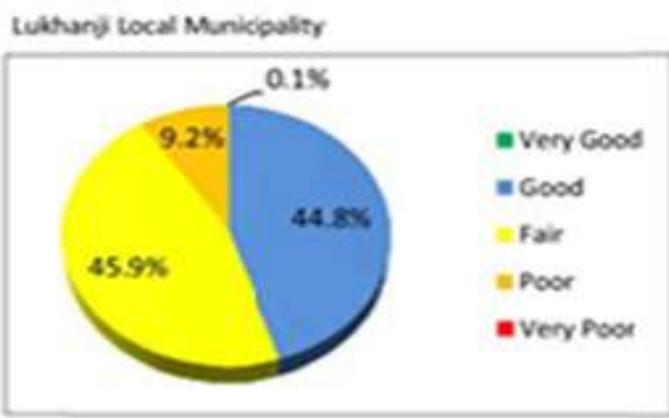
Personnel

The roads section has 10 newly contracted truck drivers, 3 supervisors, 1 roads technician, 3 grader operators, 3 excavator operators and 3 grade roller operators.

Road Condition – Surfaced Roads

Below is the pie chart below depicts the picture of roads in both the district and Lukhanji





The municipality approved a roads maintenance plan that focuses on both surfaced roads and gravel roads. As part of the roads maintenance plan the municipality purchased 56 vehicles which were distributed to all the municipal departments, the majority of which are for road maintenance and repairs.

Personnel

10 drivers were employed to operate the new plant. However, this plant is incomplete as the key plants are missing such as 3 x Smooth Roller, Low-bed Trailer, 2 x Bulldozer. The plant is divided amongst the 27 wards and 3 clusters have been formed to address the backlog in dilapidating road network. A designated set rotates per cluster. The challenge is that due to the conditions of the terrain, condition of roads the plant takes longer periods to complete the road in one ward per cluster and the others become impatient.

Servicing of the new plant

The municipality have entered into contract agreement with service providers to maintain and service the fleet for a period of 60months. The challenge is that with the newly purchased plant, the service provider refuses to maintain the fleet as per the tender document or contract, there is a dispute with the service providers in terms of contractual obligations.. This has caused delays in the maintenance of roads. The municipality has taken the service providers to the attorneys so that it can comply with the contract agreement.

Gravel Roads Infrastructure

	Total gravel roads	New gravel roads constructed	Gravel roads upgraded to tar	Kilometers Gravel roads graded/maintained
Year -2	160	20	12	120
Year -1	166	25	14	140
Year 0	162	9	1	30

Tar Road Infrastructure

						Kilometers
	Total tarred roads	New tar roads	Existing tar roads re-tarred	Existing tar roads re-sheeted	Tar roads maintained	
Year -2	98	14	25	15		120
Year -1	114	20	30	25		140
Year 0	124	0	9	9		81

Financial Performance Year 0: Road Services					
Details	Year -1	Year 0			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	5400584	6200186	6200186	2564977	-142%
Expenditure:					
Employees	2955625	3542951	3542951	3522248	-1%
Repairs and Maintenance	955288	1687274	1522274	673126	-151%
Other	852458	969961	1409961	820149	-18%
Total Operational Expenditure	4763371	6200186	6475186	5015523	-24%
Net Operational Expenditure	-637213	0	275000	2450546	100%

3.8 TRANSPORT (INCLUDING VEHICLE LICENSING & PUBLIC BUS OPERATION)



The Municipality does not have public bus operation. Communities depend from taxis and buses to commute from one point to the other. The railway route from Johannesburg to East London passes through Queenstown and is mainly used by Metrorail both for passenger train and goods train. A greater part of the population rely on taxis and buses from all areas in and around Lukhanji as their main mode transport.

The Municipality has a vehicle licensing division that is run and managed by Lukhanji Municipality on an agency basis on behalf of the Provincial Department of Roads and Transport. This vehicle licensing centre includes a testing station and it serves Lukhanji community and residents from other municipalities outside the Lukhanji Municipal area.

3.9 WASTE WATER (STORMWATER DRAINAGE)

The performance narrative for this section has been accounted for under the roads section of the report. We mainly give an account of the financial performance of the municipality on this area.

Financial Performance Year 0: Stormwater Services						R'000
Details	Year -1	Year 0				Variance to Budget
	Actual	Original Budget	Adjustment Budget	Actual		
Total Operational Revenue	25654662	77270	77270	28488308		100%
Expenditure:						
Employees	4885623	7625117	6076764	5678451	-34%	
Repairs and Maintenance	2245859	3154244	2548244	2434673		-30%
Other	11254225	7789011	11369007	11669441		33%
Total Operational Expenditure	18385707	18568372	19994015	19782565		6%
Net Operational Expenditure	-7268955	18491102	19916745	-8705743		312%



COMPONENT C: PLANNING AND DEVELOPMENT

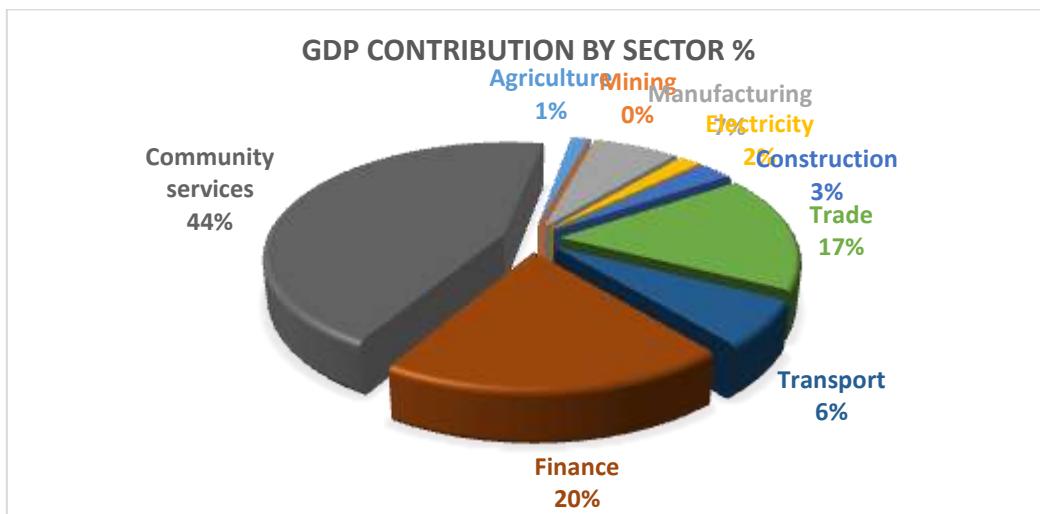
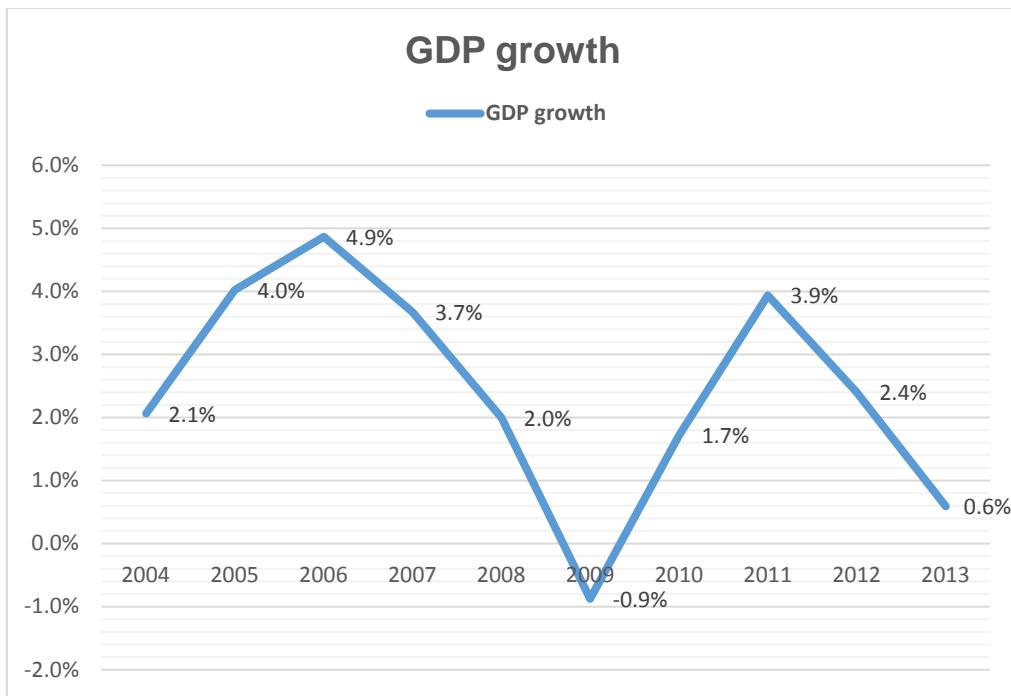
3.10 LOCAL ECONOMIC DEVELOPMENT (INCLUDING TOURISM AND MARKET PLACES)



The vision for local economic development is to position Lukhanji Municipality as “the next major economic development node (to East London and Port Elizabeth) in the Eastern Cape. The current local economic development strategy was adopted in 2008 and going forward the municipality will review the strategy to align with new policy imperatives such as the National Development Plan, New Growth Path, IPAP2 and Chris Hani District Development agenda and the proposed Chris Hani Special Economic Zone.

The performance of the economy of Lukhanji is not far from the performance of the provincial economy. The graphs and table below provide an overview of the performance of the economy of the area, the sectors that contribute most to growth and employment and those sectors that have a marginal contribution to both employment and growth like the mining.

As it reviews its local economic development strategy, the municipality will build on this knowledge for planning purposes.



Sector Contribution to Employment		
2013	No	%
Agriculture	1 349	3.1
Mining	47	0.1
Manufacturing	2 169	4.9
Electricity	172	0.4
Construction	4 443	10.1
Trade	9 548	21.7
Transport	1 846	4.2
Finance	4 233	9.6
Community services	15 897	36.1
Households	4 293	9.8
Total	43 998	100.0

Financial Performance Year 0: Local Economic Development Services					
Details	Year -1	Year 0			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	1552600	1717500	1717500	117400	-1363%
Expenditure:					
Employees	2254260	2450341	2661538	2335320	-5%
Repairs and Maintenance	3380	4345	4345	2280	-91%
Other	878540	2474547	1541453	529443	-367%
Total Operational Expenditure	3136180	4929233	4207336	2867043	-72%
Net Operational Expenditure	1583580	3211733	2489836	2749643	-17%

COMPONENT D: COMMUNITY & SOCIAL SERVICES

3.11 LIBRARIES; ARCHIEVES; MUSEUMS; GALLERIES; COMMUNITY FACILITIES

Libraries

Libraries are a Provincial function, under the Department of Sport, Recreation, Arts & Culture. The service is implemented by the municipality and although the service should be fully funded by the Province, it is currently only partially funded.

The primary purpose of the public libraries is to provide resources in a variety of media to meet the needs of individuals and groups for education, information and personal development including recreation and leisure.

There are five libraries viz:

- ⇒ Mlungisi library;
- ⇒ Ashley Wyngaard Library in Parkvale;
- ⇒ Queenstown Library;
- ⇒ Barrington Mndi Library in Ezibeleni and;
- ⇒ Whittlesea Library within Lukhanji Municipality.

Community Facilities (Halls)

Number of halls in the Lukhanji area:

Name of the Hall	Ward	Area
Town Hall	6 and 26	Queenstown
Skweyiya	22	Mlungisi
Lesseyton	27	Lesseyton
Ekuphumleni Community Hall	16	Whittlesea
Unathi Mkefa	7	Ezibeleni
Ezibeleni Community Hall	15	Ezibeleni
Ilinge Community Hall	2	Ilinge
Machibini Community Hall	3	Mtebele
Machibini Community Hall	3	
Thambo Community Hall	18	Thambo
Hackney Community Hall	12	Hackney
Ashley Wyngaart Community Hall	19	Parkville

Sada Community Hall	10	Sada
Lizo Ngcana Support Centre	20, 21	Mlungisi

There are also several sports and cultural facilities which were vandalized. The Municipality is currently in the process to upgrade these facilities. However in the areas outside Queenstown and the surrounding townships there is a lack of arts, culture and recreation facilities which hamper the development of a prominent youth sports culture.

Lukhanji Parks

There is one main park and a number of community parks. The community parks are located in the following areas:

- ⇒ Whittlesea
- ⇒ Sada
- ⇒ Ilinge :Ward 2
- ⇒ Lesseyton ward three mini parks in 27
- ⇒ Ezibeleni
- ⇒ Mlungisi; (back of the Beer Hall)

Financial Performance Year 0: Libraries; Archives; Museums; Galleries; Community Facilities; Other						R'000
Details	Year -1		Year 0			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget	
Total Operational Revenue	4015027	4077506	4077506	4202580		3%
Expenditure:						
Employees	3256255	4071303	3377650	3397042		-20%
Repairs and Maintenance	28952	39250	39250	5462		-619%
Other	285566	377369	342149	200915		-88%
Total Operational Expenditure	3570773	4487922	3759049	3603419		-25%
Net Operational Expenditure	-444254	410416	-318457	-599161		168%

3.12. CEMETERIES

Through the Community Services Directorate, the municipality is responsible for the provision of grave sites; furthermore the municipality is responsible for the digging and maintenance of the cemeteries.

The municipality has the following formal cemeteries:

- ⇒ Lukhanji, Ezibeleni, Whittlesea, Mlungisi, Ekupumleni and, Sada.

The following cemeteries are informal:

- ⇒ Ilinge and Lesseyton cemetery are not formal and are not under municipal control



⇒ Ilinge and Lesseyton: cemeteries are full.

3.12. SPORTS AND RECREATION

Sports arts and cultural heritage services are a primary competence of the Department of Sports, Arts and Culture. Lukhanji municipality plays a facilitation role in the identification of needs and cooperates with the Department of sports arts and culture in the implementation of such services. Most of the existing community sports facilities need repair and the majority of wards do not have well planned sporting facilities.

The municipality has the following sports and recreational facilities:

- ⇒ **Tobi Khula Sport Centre** – Maintenance of the grounds, fields and the halls and ablution facility.
- ⇒ **Mlungisi Sport Stadium** – Maintenance of the grounds, fields and the ablution facility. The tennis court at Mlungisi needs upgrading – nets to be constructed around the courts and to be resurfaced. The palisade fence surrounding the stadium need to be extended to cover the whole area.
- ⇒ **Dumpy Adams Stadium** – Maintenance of the grounds, fields and the ablution facilities. An artificial soccer field was built by SAFA at Dumpy Adams. We are also in the process of upgrading the Cricket pitch and complete the athletic track and the tennis courts. The netball court also needs upgrading and we need stands to be constructed around the new soccer field.
- ⇒ **Ezibeleni Sport Stadium** – Maintenance of the grounds, fields and the ablution facility.
- ⇒ **Sada Sport Stadium** – Maintenance of the grounds, fields and the ablution facility.
- ⇒ **Queenstown Public Swimming Pool** – Maintenance of the grounds, pool floor and water, cleaning the ablutions and selling tickets. Lifeguard to be on duty. The buildings at the pool still need to be repaired and painted.

Details	Year -1	Year 0			R'000
	Actual	Original Budget	Adjustment Budget	Actual	
Total Operational Revenue	158266	214150	214150	88317	-142%
Expenditure:					
Employees	8522250	10785190	9313838	8640545	-25%
Repairs and Maintenance	315560	323161	464490	334313	3%
Other	452562	698406	928632	551147	-27%
Total Operational Expenditure	9290372	11806757	10706960	9526005	-24%
Net Operational Expenditure	9132106	11592607	10492810	9437688	-23%



COMPONENT I: FUNCTIONAL AND SDBIP OVERVIEW AND CORPORATE OFFICES AND OTHER SERVICES

Functional Overview

DIRECTORATE	FUNCTIONS
ADMIN & HR	<p>Administration</p> <p>Give administrative support to the Council and its political structures</p> <p>Corporate support for other Directorates.</p> <p>Provision of secretariat services to all directorates</p> <p>The management of the municipality's incoming and outgoing mail including the distribution and dispatch of correspondence to and from the public</p> <p>The management of access to records</p> <p>Annual Reporting</p> <p>Human Resources</p> <p>The Human resource department also provides a support function to all directorates, staff and political executive leadership within the municipality</p> <p>The overall objective of this unit is to transform the organisation into an effective developmental organization by:</p> <ul style="list-style-type: none"> ⇒ Ensuring a skilled workforce through training and selection ⇒ Ensuring sound HR administration ⇒ Ensuring an informed labour force by practicing sound labour relations ⇒ Ensuring a sound organisational structure
FINANCE	<p>Expenditure and Supply Chain Management</p> <p>Salaries: Implementation of approved payroll, paying of salaries, allowances and accounting for payroll implementation</p> <p>Creditors: Payment and recording of creditors' payments and reconciliations</p> <p>Supply Chain Management: Responsible for the Administration and Management of Procurement of goods and services (i.e. Acquisition Management in particular)</p> <p>Asset Management</p> <p>Bank Reconciliation</p> <p>Administration and Management of Investments</p> <p>Administration and Management of Loans</p>
	<p>Revenue</p> <p>Facilitation and application for Municipal Services Debtors Billing</p> <p>Administration and Management Meter Reading</p> <p>Administration of Clearance Certificates</p> <p>Rendering of Monthly Consumer / Rates Debtors Accounts</p> <p>Customer Care and Query Administration</p> <p>Receipting and bank revenue management</p> <p>Credit Control, Debt Collection and Indigents Management</p>



	<p>Budget</p> <p>Budgeting</p> <p>In-year Reporting</p> <p>Annual Financial Statements, Budgetary Management and Control Insurance Management</p> <p>Financial Viability</p> <p>Co-ordinate Financial Policy Formulation</p>
IPED	<p>Integrated Development Planning</p> <p>This department provides a unique support service to all departments, community and council. It is responsible for the coordination and management of the IDP process, Organisational Performance Management, Service Delivery and Budget Implementation Plan.</p> <p>Local Economic Development (LED) and Tourism.</p> <p>Create an enabling environment for economic development</p> <p>Increase economic opportunities for people</p> <p>Promote intergovernmental collaboration</p> <p>Build local Capacity</p> <p>Encourage PPP in Local economic Development</p> <p>Monitor and evaluate LED strategy.</p> <p>Capacitate SMME's</p>
HUMAN SETTLEMENTS	<p>Housing and Integrated Human Settlement</p> <p>The function of this department is to facilitate, manage and maintain low cost housing development within the Lukhanji municipality.</p> <p>Property Management</p> <p>The Property Management section has to ensure that Municipal owned immovable assets are managed efficiently, effectively and economically and are dealt with in a manner which will ensure the maximum benefit to the municipality and the community</p>
TECHNICAL SERVICES	<p>Water Distribution and Treatment</p> <p>Supply potable water to the residents within Lukhanji in terms of Schedule 4B of the Constitution: "Water and Sanitation Services limited to potable water supply systems"</p> <p>Roads</p> <p>The Lukhanji Municipality is responsible for the roads and storm water reticulation within the towns of the EC134 established municipal area.</p> <p>Electricity Distribution</p> <p>The electricity purchase and distribution functions of the municipality are administered as follows and include:</p> <p>The effective and efficient distribution and reticulation of energy in the following areas:</p> <ul style="list-style-type: none"> o Queenstown o Ezibeleni o Mlungisi



<ul style="list-style-type: none"> o Victoria Park o Sabata Dalinyebo o Newvale o Nomzamo o All other areas reside within Eskom jurisdiction. <p>Distribute electricity subject to the license conditions set by NERSA</p>	<p>Electricity/Street Lighting</p> <p>Provide adequate street lighting for urban areas</p> <p>Maintain/Repair of faulty street lights</p> <p>Upgrade of existing services as well as new developments.</p>
	<p>Sanitation</p> <p>Chris Hani District Municipality (CHDM) is the Water Services Authority (WSA) whilst Lukhanji LM is a Water Services Provider (WSP). The primary responsibility of ensuring that, local people have access to water and sanitation rests with CHDM. Lukhanji Municipality is responsible for operation and maintenance of the water and sanitation network. The operation and maintenance of the water and sanitation network is fully funded by the water and sanitation subsidy.</p>
	<p>Fleet Management</p> <p>To manage and maintain all fleet of the municipality</p> <p>To provide sufficient municipal services to all residence within the municipal boundary</p>
<p>COMMUNITY SERVICES</p>	<p>Solid Waste Management</p> <p>Lukhanji municipality is responsible for the day to day operations in every town and for the removal and collection of the waste, cleaning of road reserves and most public open places.</p> <p><u>Categories</u></p> <p>General domestic waste Commercial waste Industrial waste Medical waste Hazardous waste Agricultural waste:</p> <p>The Directorate is further responsible for: Disaster Management Traffic & Municipal Security Firefighting Parks & Recreation Nature Reserves</p>



3.24 EXECUTIVE AND COUNCIL

Financial Performance Year 0: The Executive and Council					
Details	Year -1		Year 0		
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	94850550	98182901	96465401	100704027	3%
Expenditure:					
Employees	29560258	32215705	33532387	30484075	-6%
Repairs and Maintenance	45820	52889	39644	16288	-225%
Other	12580566	16273348	13734373	22280949	27%
Total Operational Expenditure	42186644	48541942	47306404	52781312	8%
Net Operational Expenditure	-52663906	-49640959	-49158997	-47922715	-4%

3.25 FINANCIAL SERVICES

Financial Performance Year 0: Financial Services					
Details	Year -1		Year 0		
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	83548340	85467214	94811450	97139999	12%
Expenditure:					
Employees	12999563	14037077	14238995	13652613	-3%
Repairs and Maintenance	100215	97317	245450	136514	29%
Other	23560245	25605680	26585690	26868128	5%
Total Operational Expenditure	36660023	39740074	41070135	40657255	2%
Net Operational Expenditure	-46888317	-45727140	-53741315	-56482744	19%

3.26 HUMAN RESOURCE SERVICES

Financial Performance Year 0: Human Resource Services					
Details	Year -1		Year 0		
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	215625	38552	508137	110271	65%
Expenditure:					
Employees	4781520	5091996	4807297	9953924	49%
Repairs and Maintenance	12654	18500	18500	5559	-233%
Other	1002355	1035961	1495546	1269737	18%
Total Operational Expenditure	5796529	6146457	6321343	11229220	45%
Net Operational Expenditure	5580904	6107905	5813206	11118949	45%

COMPONENT K: ORGANISATIONAL PERFORMANCE SCORECARD**CHAPTER 4 – ORGANISATIONAL DEVELOPMENT PERFORMANCE
(PERFORMANCE REPORT PART II)****COMPONENT A: INTRODUCTION TO THE MUNICIPAL PERSONNEL**

The municipality at any given day has an average of 690 employees (both permanent, contractual and casual) in its employ who individually and collectively contribute to the achievement of the Municipality's objectives. The primary objective of Human Resource Management is to render an innovative HR service that addresses both skills development and an administrative function

4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES**COMPONENT B: MANAGING THE MUNICIPAL WORKFORCE****4.1.1 VACANCY RATE**

The approved organogram for the municipality had 109 additional posts budgeted for in the 2012/13 financial year. The actual positions filled are indicated in the tables below by post level and by functional level.

Vacancy Rate: Year 0				
Designations	*Total Approved Posts No.	*Vacancies (Total time that vacancies exist using fulltime equivalents) No.	*Vacancies (as a proportion of total posts in each category)	%
Municipal Manager	1	0		0.00
CFO	1	0		0.00
Other S57 Managers (excluding Finance Posts)	5	1		20.00
Other S57 Managers (Finance posts)	3	1		33.33
Police officers	12	3		25.00
Fire fighters	20	3		15.00
Senior management: Levels 13-15 (excluding Finance Posts)	18	5		27.78
Senior management: Levels 13-15 (Finance posts)	6	2		33.33
Highly skilled supervision: levels 9-12 (excluding Finance posts)	35	8		22.86
Highly skilled supervision: levels 9-12 (Finance posts)	8	1		12.50
Total	109	25		22.94



COMPONENT B: MANAGING THE MUNICIPAL WORKFORCE

Note: The Municipal systems Act, 2000 Section 67 requires municipalities to develop and adopt appropriate systems and procedures to ensure fair; efficient; effective; and transparent personnel administration in accordance with the Employment Equity Act 1998.

The Human Resource division comprises of HR Administrative Services. This section is responsible for the administration of leave, fringe benefits, medical aid contributions and housing schemes. The Occupational Health and Safety section, as well as the Skills Development and Training section resides in this department.

4.2 POLICIES

4.2.1 HR POLICIES AND PLANS

Policies and plans provide guidance for fair and consistent staff treatment and a consistent approach to the managing of staff.

The table below shows the HR policies and plans that are approved and that still needs to be developed:

	Name of Policy	HR Policies and Plans		
		Completed %	Reviewed %	Date adopted by council or comment on failure to adopt
1	Affirmative Action			
2	Attraction and Retention	80	0	
3	Code of Conduct for employees	100	100	
4	Delegations, Authorisation & Responsibility	100	100	
5	Disciplinary Code and Procedures	100	100	
6	Essential Services	30		not yet adopted
7	Employee Assistance / Wellness	30		not yet adopted
8	Employment Equity	100		to be reviewed 2014
9	Exit Management	100	100	
10	Grievance Procedures	100	100	
11	HIV/Aids	100	100	
12	Human Resource and Development	100	100	
13	Information Technology	20		
14	Job Evaluation	100	100	
15	Leave	100	100	
16	Occupational Health and Safety	100	100	



17	Official Housing	100	100	
18	Official Journeys	100	100	
19	Official transport to attend Funerals	100	100	
20	Official Working Hours and Overtime	100	100	
21	Organisational Rights	100	100	
22	Payroll Deductions	0	0	
23	Performance Management and Development	?	?	
24	Recruitment, Selection and Appointments	100	100	
25	Remuneration Scales and Allowances	100	100	
26	Resettlement	100	100	
27	Sexual Harassment	0	0	
28	Skills Development	100	100	
29	Smoking	100	100	
30	Special Skills	20		
31	Work Organisation	0	0	
32	Uniforms and Protective Clothing	100	100	
33	Other:			

4.3 INJURIES, SICKNESS AND SUSPENSIONS

4.3.1 NUMBER AND COST OF INJURIES ON DUTY

An occupational injury is a personal injury, disease or death resulting from an occupational accident.

Compensation claims for such occupational injuries are calculated according to the seriousness of the injury/disease and can be costly to a municipality. Occupational injury will influence the loss of man hours and therefore financial and productivity performance.

Number and Cost of Injuries on Duty					
Type of injury	Injury Leave Taken Days	Employees using injury leave No.	Proportion employees using sick leave %	Average Injury Leave per employee Days	Total Estimated Cost R'000
Required basic medical attention only	45	8	18%	9	45
Temporary total disablement					
Permanent disablement					
Fatal					
Total	45	8	18%	9	45



4.3.2 NUMBER OF DAYS AND COST OF SICK LEAVE

The number of day's sick leave taken by employees has service delivery and cost implications.

The monitoring of sick leave identifies certain patterns or trends. Once these patterns are identified, corrective action can be taken.

Number of days and Cost of Sick Leave (excluding injuries on duty)						
Salary band	Total sick leave	Proportion of sick leave without medical certification	Employees using sick leave	Total employees in post*	*Average sick leave per Employees	Estimated cost
	Days	%	No.	No.	Days	R' 000
Lower skilled (Levels 1-2)	19	90%	10	30	0.12	30
Skilled (Levels 3-5)	30			22	0.19	
Highly skilled production (levels 6-8)	100			58	0.65	
Highly skilled supervision (levels 9-12)	8	95%	2	26	0.05	31
Senior management (Levels 13-15)	199			11	1.28	
MM and S57	40			8	0.26	
Total	396	93%	12	155	2.55	61

4.3.3 NUMBER AND PERIOD OF SUSPENSIONS

Number and Period of Suspensions				
Position	Nature of Alleged Misconduct	Date of Suspension	Details of Disciplinary Action taken or Status of Case and Reasons why not Finalised	Date Finalised
Budget Manager	Financial		None	N/A
Accountant	Financial		None	N/A
Payroll Clerk	Conflict of Interests		Financial Written Warning	

COMPONENT C: CAPACITATING THE MUNICIPAL WORKFORCE

Section 68(1) of the MSA states that municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way. For this purpose the human resource capacity of a municipality must comply with the Skills Development Act (SDA), 1998 (Act No. 81 of 1998), and the Skills Development Levies Act, 20 1999 (Act No. 28 of 1999). Policies for internal bursaries are in place

4.4 PERFORMANCE REWARDS

The Municipality has developed a framework for performance management . We have not as yet used it to reward / recognise performance, However it is a project of 2014/15 financial year. The Municipality however participates in other public and/or legal government reards systems.

COMPONENT C: CAPACITATING THE MUNICIPAL WORKFORCE

4.5 SKILLS DEVELOPMENT AND TRAINING

Management Level	Gender	Employees in post as at 30 June Year 0	Skills Matrix								
			Learnerships			Skills programmes & other short courses			Other forms of training		
No.	Actual: End of Year -1	Actual: End of Year 0	Year 0 Target	Actual: End of Year -1	Actual: End of Year 0	Year 0 Target	Actual: End of Year -1	Actual: End of Year 0	Year 0 Target	Actual End of Year	
	Female	4								1	1
MM and s57	Male	3								1	2
	Female	10								11	3
Councillors, senior officials and managers	Male	7								9	4
	Female	4								2	2
Technicians and associate professionals*	Male	8								9	9
	Female	6								6	6
Professionals	Male	3								9	2
	Female	19								11	12
Sub total	Male	22								22	17
	Total	0	86	0	0	0	0	0	0	81	58

Financial Competency Development: Progress Report*						
Description		A. Total number of officials employed by municipality (Regulation 14(4)(a) and (c))	B. Total number of officials employed by municipal entities (Regulation 14(4)(a) and (c))	Consolidated: Total of A and B	Consolidated: Competency assessments completed for A and B (Regulation 14(4)(b) and (d))	Consolidated: Total number of officials whose performance agreements comply with Regulation 16 (Regulation 14(4)(f))
Financial Officials						
Accounting officer		1	0	1	0	0
Chief financial officer		1	0	1	0	0
Senior managers		2	0	2	0	0
Any other financial officials		8	0	8	0	0



Supply Chain Management Officials						
Heads of supply chain management units	0	0	0	0	0	0
Supply chain management senior managers	0	0	0	1	1	1
TOTAL	12	0	12	1	1	1



COMPONENT D: MANAGING THE WORKFORCE EXPENDITURE

4.6 EMPLOYEE EXPENDITURE

4.6.1 SKILLS DEVELOPMENT EXPENDITURE

The table below indicates the number of people trained and the total amount spent in the 2013/14 financial year:

Management level		Gender	Employees as at the beginning of the financial year No.	Skills Development Expenditure								
				Original Budget and Actual Expenditure on skills development Year 1		Learnerships		Skills programmes & other short courses		Other forms of training		Total
				Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget	Actual	Original Budget
MM and S57	Female		2							20	20	20
	Male		2							20	25	20
Legislators, senior officials and managers	Female		18							30	35	30
	Male		12							25	15	25
Professionals	Female		7							20	15	20
	Male		6							15	10	15
Technicians and associate professionals	Female		0									
	Male		0									
Clerks	Female		12							20	15	20
	Male		9							30	25	30
Service and sales workers	Female		0									
	Male		0									
Plant and machine operators and assemblers	Female		0									
	Male		20							30	25	30
Elementary occupations	Female		0									
	Male		0									
Sub total	Female		39							90	85	90
	Male		29							90	75	90
Total			68	0	0	0	0	0	180	160	180	

.0



CHAPTER 4 – ORGANISATIONAL MUNICIPAL PERFORMANCE

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CHAPTER ONE

1.1 EXECUTIVE SUMMARY

1.1.1 Purpose of the Report

The purpose of this report is to reflect the actual performance of the Municipality as measured against the performance indicators and targets in its Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP) for 2014/2015 financial year.

Performance management is a strategic approach to management which equips councillors, leaders, managers, workers and stakeholders at different levels with a set of tools and techniques to regularly plan, continuously monitor, periodically measure and review the performance of the municipality in terms of indicators and targets set for efficiency, effectiveness and impact. Good performance information helps identify what policies and processes work and why they work. Performance information is essential for effective management, including business planning, monitoring and evaluation. Externally, performance information allows effective accountability with appropriate information; members of the public and other stakeholders are able to exert pressure for improvements and can better understand the issues involved.

This report will also endeavour to report to Council the Municipality's performance in terms of the five (5) National Government's Strategic key Performance Areas for local government, which are (1) Basic Service Delivery; (2) Local Economic Development; (3) Municipal Institutional Transformation and Development as well as on Spatial Development Framework KPA.

1.2 INTRODUCTION

The Annual Performance Report of Lukhanji Municipality is hereby presented in terms of the Municipal Systems Act (MSA), 32 of 2000, section 46(1) and (2), as well as the MFMA Circular 11 on annual reporting. This report covers the performance information from 01 July 2014 to 30 June 2015 and focuses on the implementation of the Service Delivery Budget and Implementation Plan (SDBIP), in relation to the objectives as encapsulated in the Municipality's Integrated Development and Plan (IDP).

The Municipality for each quarter aligns the performance of the municipality against the set targets on the Municipal SDBIP. This performance seeks to attain the following:

- An indication of the progress achieved against the set objectives and service delivery targets

- Identification of the gaps between policy formulation and policy implementation, and taking corrective measures if deemed necessary
- Enhancement of strategic planning processes
- Assessment of the current service provision and sustainability of such provision.
- Reflection of the level of institutional capacity to deliver services to the citizens.

This performance report is per internal department and indicates the performance of each department against the departmental planned Annual targets and Objectives.

The format of the report will reflect the Municipality's Key Performance Indicators (KPI) per Municipal Key Performance Area. Each Key Municipal KPA have number of Municipal Key Focus Areas (KFA's) which was deliberately designed by the Lukhanji Local Municipality during the development of the Municipal strategic score card to focus its development initiatives in a more coherent and organised manner.

1.3 BACKGROUND AND LEGISLATIVE MANDATE

Lukhanji Local Municipality's Demographics and Vision

Lukhanji is a category B municipality situated within the Chris Hani District of the Eastern Cape. It is made up of a combination of the greater Queenstown and surrounding farms and villages, Ilinge, Hewu/Whittlesea, Gwatyu Farms, Lesseyton and Zingquthu. Lukhanji is landlocked by the municipalities of Tsolwana and Inkwanca to the west, Emalahleni and Intsika Yethu to the north, and Amahlathi to the east. Lukhanji occupies a strategic geographic position within the Chris Hani District Municipality and covers approximately 4 231 km². According to Census 2011, the Lukhanji has a total population estimated at 190 723 (24% of the district population) in the Chris Hani district and comprises of 27 wards.

According to Census 2011 Lukhanji has a total population estimated at 190 723 and 51 173 households. Growth trend analysis shows that Lukhanji population had a marginal growth of 0.6% when comparing 2001 Census to 1996 Census results, and 0.5% when 2011 Census results are compared to 2001 Census. The marginal growth could be attributed to a variety of factors such as death, poverty, HIV/AIDS and/or family planning. On average there are about 3.5 persons per household. Of the population, 92,6% are black African, 3,8% are coloured, 2,7% are white, with other population groups making up the remaining 0,9%.

Vision &Mission

Lukhanji Local Municipality's vision is a municipality of choice that seeks to work closely with its people to promote good governance, economic growth and sustainable delivery of services.

Its purpose statement (mission) is to strive for financial and administrative stability while constantly providing effective, affordable, sustainable quality services and also promoting sustainable integrated development in order to achieve socio economic upliftment, stability and growth.

The primary values needed to anchor and support the realisation of the vision and mission are:

- 11. Good governance;**
- 12. Accountability;**
- 13. Public participation;**
- 14. People Development;**
- 15. Teamwork;**
- 16. Integrity;**
- 17. Tolerance;**
- 18. Honesty;**
- 19. Responsibility; and**
- 20. Trust**

Legal and/or Statutory Requirements

- Constitution of the Republic of South Africa, 1996
- Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)
- Local Government: Municipal Systems Act, 2000 (Act 32 of 2000 as amended)
- Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)

2 INSTITUTIONAL PERFORMANCE MANAGEMENT PROCESS OVERVIEW

On an annual basis, each municipality must, in terms of section 46 (1) of the Local Government Municipal System Act of 2000 as amended, prepare a performance reporting that reflects:

- 1) The performance of the municipality;
- 2) The comparison of the performance referred to above with the targets set for the financial year;
- 3) Measures taken to improve performance.

The annual performance report prepared by the municipality forms part of the municipal annual report as stipulated in the relevant pieces of legislation.

This document details the performance of the municipality, in as far as meeting the needs of the communities and other stakeholders. It also serves as a basis for the assessment of the municipal performance in terms of the priorities and targets set in the reviewed IDP for 2014/2015.

Development and Approval of the Performance Management System Framework

The Performance Management System Framework was adopted in August 2014. This is after the municipality adopted its reviewed IDP for the 2014/2015 financial year in line with the requirements of Chapter 5 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000 as amended).

Lukhanji Local Municipality adopted a Performance Management System Framework that guides the manner in which performance must be managed in the Municipality. Key deadlines for performance reporting, assessment and reviews as well as the key role players in the process are indicated. This report is compiled in accordance with the provisions made in the Lukhanji Local Municipality's PMS Framework.

Included in the IDP, was a performance management system framework, which was developed to guide and inform performance management related activities as required by Chapter 6 of the same Act mentioned above.

In pursuit of the implementation of the framework and on an annual basis after the approval of the IDP and Budget by Council, the office of the municipal manager facilitates development of the service delivery and budget implementation plan to present to the Executive Mayor for approval in line with the requirements of the MFMA and the approved IDP/Budget and PMS process plan of the municipality.

Compilation and Approval of the Service Delivery and Budget Implementation Plan 2014/2015

The Service Delivery and Budget Implementation Plan was developed by the Municipality in accordance with the agreed upon priorities between the Municipality and its stakeholders during the Mayoral Outreach programmes. The SDBIP is strategy developed by the municipality to turn the priorities into programmes and projects with budget and time frames allocated to each programme. The SDBIP serves as a contract between the Council and the communities, as well as between the municipality and its administration.

The signing of Performance Agreements

Performance Agreement was entered into between the Executive Mayor and the Municipal Manager. The Municipal Manager in turn, entered into performance agreements between himself and senior management.

The SDBIP was an annexure in the performance agreements. All senior management signed their performance agreements for the first time in the history of the municipality.

The challenge was that even though some of the senior managers indicated in their personal development plans, areas they would like to be capacitated upon, this could not be achieved as the budget allocated for staff training was not sufficient.

The PMS Framework was not implemented optimally. The challenge might have been due to the vacancy of the Municipal Manager position. This resulted in the Municipality having more than four acting municipal managers in the year under review. Support was solicited from the Eastern Cape Department of Cooperative Governance and Traditional Affairs. The Department seconded two people to support the municipality as acting municipal Managers.

Lukhanji Local Municipality has a performance evaluation system in place for Section 56/57 employees, it is envisioned that this process will be cascaded in terms of the Systems Act.

However the cascading down of Performance Management System to lower post levels still poses a serious challenge. The matter is still being debated at the SALGA Bargaining Council. However, the municipality needs to devise means to ensure that performance of all its employees is reported upon and evaluated in order to ensure value for money and to render quality services to the communities and for accountability purposes.

The municipality appointed its Performance Management Systems Task Team as guided by the approved municipal PMS Framework; however this team could not do its work. This may be mainly due to the vacancy of the municipal manager position as the person that has to drive the PMS process.

The financial year under review also saw the Municipality implementing minimum Competency requirements as in line with the Municipal Regulations on Minimum Competency Requirements (Gazette No.29967 of 15 June 2007) These Regulations prescribe minimum competency requirements for senior officials as well as municipal finance officials and supply chain managers.

The impetus that informs the drive for a developmental state that promotes growth and development centers on the capacity of the municipality to effectively discharge its responsibilities. The Lukhanji Work Place Skills Plan as adopted by Council seeks to ensure that the municipal officials and councillors receive the adequate, relevant skills so that they can function without constraints and capable of being innovative in addressing the social and economic needs of the communities.

Almost 90% of the senior and middle management officials have been trained on CPMD and there are some that are currently registered, including some councillors.

The municipality has a revised organizational structure that was approved in financial year under review. The organisational structure was since reviewed in 2002. This is quite an achievement for the municipality. All relevant stakeholders including the trade unions: IMATU and SAMWU participated in the review process.

There were new positions created and almost 80% of the budgeted posts were filled. The support that was received from CoGTA Eastern Cape in the review of the organisational structure could not be overemphasised.

The municipality has a revised organizational structure that was approved in July 2015

In accordance with the Employment Equity Act (No. 55 of 1998), Lukhanji Municipality developed and implemented the Employment Equity Plan as required by the said act. The purpose of the policy is to state the broad principles of employment equity to which the Lukhanji Municipality is committed and to describe in general how the Municipality seeks to realize these principles.

The municipality set 144 targets for the year under review. The graph below shows the overall municipal performance for the 2014/2015 financial year.

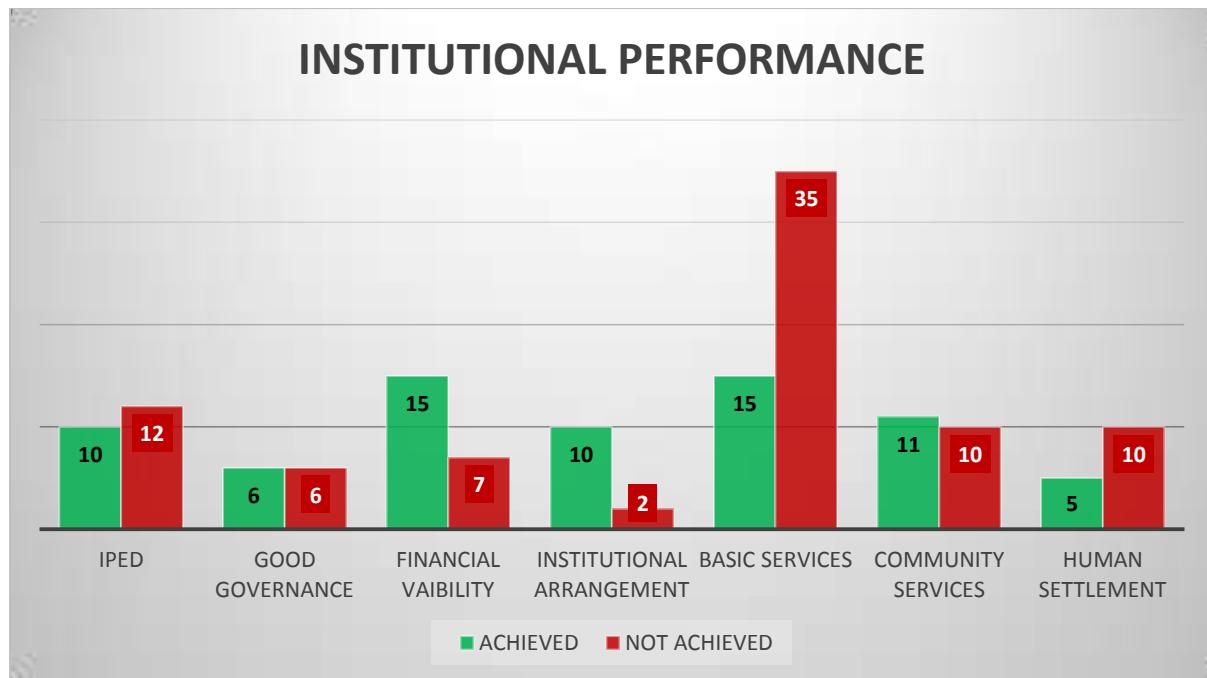


Figure 1: Overall municipal performance

CHAPTER 2

3.1 Basic Service Delivery Performance

3.1.1 Water and Sanitation

In terms of the powers and functions, water and sanitation is a district municipality's function. Lukhanji used to be the water services provider and the district remained the authority. However, in 2014/2015 financial year the whole function was taken over by Chris Hani District Municipality.

At first there was a challenge with the payment of two accounts to the local municipality for property rates and the district municipality for the provision of water and sanitation. Numerous consultative engagements were conducted on the matter to address the challenges.

Source of supply & provision

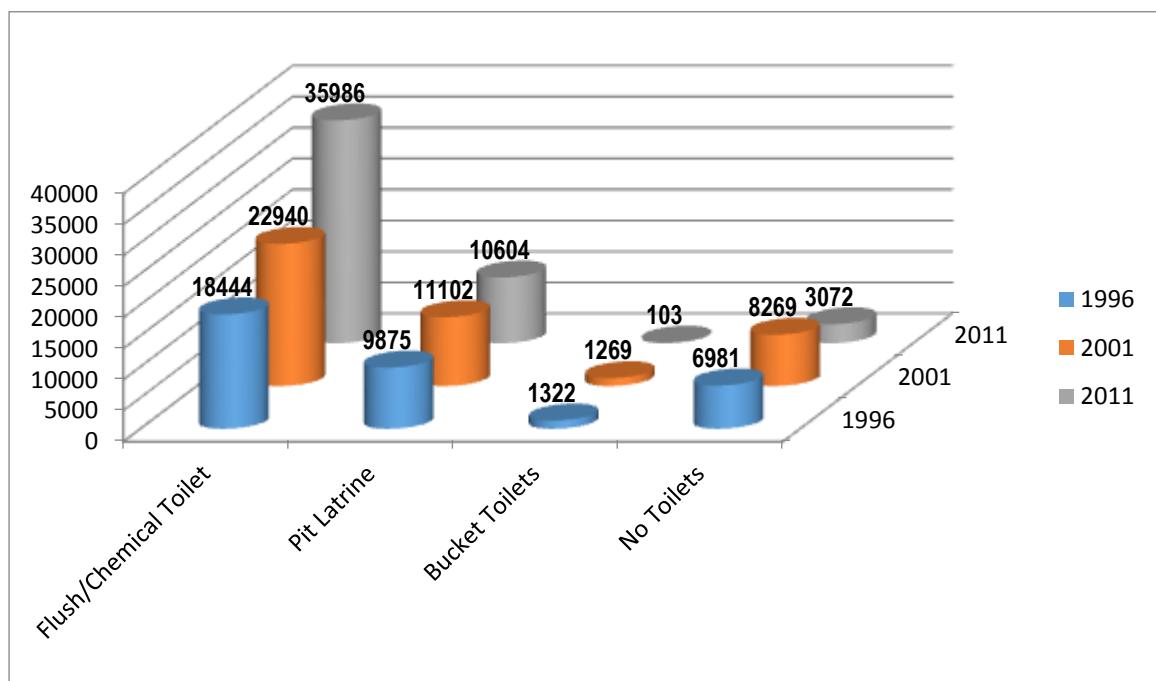
Bulk potable water is supplied from Waterdown and Bongolo dams. While irrigation water is supplied from the Waterdown, Oxkraal and Bushmanskraans dams (0.52mm³). As potable water demand has reached available supply a new water scheme to bring water from the Xonxa dam to

Queenstown will be designed and implemented over the next few years. Water Demand management is also being implemented by both the District and Lukhanji to bring down water losses.

Water for Queenstown is imported from Waterdown Dam and blended with water from Bonkolo Dam. Boreholes augment the water supply. The importing of water to Queenstown from Waterdown Dam starves Whittlesea of adequate water supply. To address this problem and service the poorly serviced Ilinge Township, a project to supply Queenstown with water from Xonxa Dam is being undertaken by the CHDM. The implementation of the project is slow as it requires well over R350 million capital funding.

A further R223 million is required to supply bulk water supply to the proposed settlement of New Rathwick. The new settlement will be composed of 3 000 housing units, with an estimated population of 12 000.

Sanitation backlogs remain higher than that of water in especially the rural areas. The falling behind of basic sanitation is attributable to slow processes of VIP implementation in the last five years compared to water.



The above diagram illustrates the number of households with access to the toilet facilities in the municipal area, with 65% having access to flush toilets (with septic tank) with 0.2% still using bucket toilets.

This is the information from STATSSA. However there is no more bucket system in Lukhanji.

3.1.2 Roads and Storm Water

The key objective of the unit is the provision of fully maintained access roads and timely response to complaints reported to the unit. Lukhanji 's Road and Storm water Maintenance Plan has been approved by Council and is currently being implemented, However, the municipality still needs to develop roads and storm water master plan.

As part of the roads maintenance plan the municipality purchased 56 vehicles which were divided into all the municipal departments, the majority of which are for road maintenance and repair. The Department of Roads and Transport contracted a service provider to assess all the provincial roads. The same service provider is also contracted by the district municipality to assist all local municipalities to assess the municipal roads.

This will assist municipalities to have a predetermination of the allocation of the MIG funding. This will be applicable from 15/16 F/Y. District municipalities receive the RRAMS grant to undertake the programme Roads audit done to all municipalities, an inventory has been compiled to make LM GRAP compliant. Progress report on the work done thus far was presented to CHDM local municipalities on 12 March 2014 Budgetary constraints and shortage of human resources have limited the road section from doing full maintenance especially with the resurfacing of roads, building maintenance and concrete works.

During the year under review, the department did not have a director. A number of managers were requested by Council to become Acting Directors. This might have compromised the municipality to achieve the targets set for the financial year.

The following projects were planned for the year under review

Project	Areas	Budget	
4.7km of surface roads	Lukhanji area as identifies by Council	R 9,000,000.00	Project was not implemented due to the late appointment of the service provider
To ensure proper upgrade of 24km of gravel roads by June 2015	In all the Lukhanji clusters: Whittle sea, Ezibeleni and Ilinge area and Mlungisi area	R 5,751,450.00	The project was implemented in all the clusters
Completion of the Intermodal Taxi Rank	Queenstown		

3.1.3 Electricity

Lukhanji Municipality developed an electricity master plan.

During the 2013/14 budget adjustment Council approved an amount of R5 million for the implementation of the electricity master plan of the municipal electricity master plan.

The master plan intends addressing the following points:

- The upgrade of 4 X 66/11 kV intake sub-stations to cater for a nominated maximum demand of 70 MVA over the next 5 to 10 years.
- The electricity network was planned and constructed between 1975 and 1990 and has never been upgraded or refurbished. Many of the major elements of the electricity infrastructure are more than 35 years old and are reaching end of life span. Five year forecasts taken from a median point of view show that the municipality's NMD will rise to 68 MVA.
- The existing 11kVA underground cabling is not capable of handling existing demand and fault currents. There are serious overload conditions in Ezibeleni, Mlungisi and Queenstown CBD.
- The situation of the electricity network means that no further new connections are possible in areas such as Ezibeleni, Newvale, Nomzamo, Aloveale, Queenstown CBD and the proposed New Rathwick. It is increasingly becoming very difficult to keep lights burning in the winter season peak period.
- The Ezibeleni electrical transformer blew in February 2014. The community was left with no electricity for about a week. As a temporary solution one of the transformers from the Queens Casino was taken to Ezibeleni to counteract the challenge.
- In the electricity master plan, two (2) transformers were purchased in each area to address the electricity outages and this also cater for the new development.
- The projects planned for the year under review as per IDP document and the electricity master plan are as follows:

Project	Area	Budget
Construct a Central Substation - 11 kV Cable.		R 14,000,000.00.
Replace (1) Central Substation- 11 kV Switching Panels. (2) Central Substation- LV Control Panel.		Part of the R14 000 000,00
Upgrade of Mlungisis MV/LV network	Mlungisi	Part of the R 14 000 000,00
20MVA,66/11KV transfomer	Queenstown	
Ezibeleni Cable Farm 22/11KV Substation to 11KV Substation, 11KV overhead line	Ezibeleni	R 3 000 000,00

Ninety-seven percent of households in the Municipal Area are electrified.

3.1.4 Waste Management

Waste management is one of the critical areas of environmental management that pose challenges for all tiers of government i.e. from national to local level. These challenges become apparent at local government level; as local authorities are responsible for waste collection; Transportation and final Disposal [Landfill Sites].

The majority of local Municipalities are unable to face these kinds of challenges due to usual obstacles of lack of adequate funding and equipment.

Due to those challenges and obstacles; the Lukhanji Local Municipality in conjunction with Chris Hani District Municipality decided to submit a business plan to secure funding for the following Solid Waste Management programmes:

- A] Waste Collection [collection vehicles and waste receptacles].
- B] Recycling [Waste Multi-Recycling buy-back Centres].
- C] Renewable energy [conversion of waste into energy].

The business plan covers each component in detail and also highlights what is needed to be done in order to overcome the current situation faced by Lukhanji Local Municipality.

SERVICE DELIVERY VEHICLES

The Lukhanji Local Municipality is legally responsible for rendering refuse removal service within its area of jurisdiction and this includes residential areas; industrial areas; business areas and streets within the CBD.

At present this service is being rendered with nine [9] refuse compactor trucks; two [2] refuse cage trucks and one [01] old roll on\off container truck. In order for the Municipality to render an effective quality service to the community; twelve [12] reliable refuse compactor trucks are required.

The municipality is presently experiencing serious problems with service delivery due to mechanical problems with collection vehicles. The majority nine out of twelve [9out12] collection vehicles are in a relatively poor condition and regular trucks breakdowns contribute to a less effective collection services and enforces the Municipality to work after hours.

The current fleet for refuse removal is in old and in poor condition. The fleet is being maintained by the Municipality and there is a big problem when there is a breakdown of fleet due to lack of back – up vehicles. This is evident in many cases where there is a breakdown of trucks and the drivers had to share what is available at that moment; This also shortens the wear and tear of other two [1995] Isuzu trucks and double diff Isuzu truck [2009] which has to do double or triple rounds a day.

During the mechanical breakdown of the trucks the cleansing section had to resort in using the tipper truck and Isuzu bakkies which are not convenient for refuse collection.

WASTE COLLECTION INFRASTRUCTURE

The second problem which the municipality experiences is the condition of refuse containers which are being used by businesses. The Municipality is currently using the 1.75m³ blue refuse bins [lifted by compactor trucks]; the 4.6m³ yellow skips [lifted by tractor-trailer combination] and 18m³ refuse containers [lifted by old Isuzu roll on\off truck] which where inherited from Queenstown Municipality. The problem with all the Municipal refuse removal receptacles is that they are:

- Old rusted and falling apart.
- Without doors and wheels.
- Without bottom and leaking.

These containers are also a health and safety hazard to the employees that handles them. The majority of businesses had already complained about the condition of those containers.

The municipality is not in a position to service informal settlement with the limited number of the 4.5m3 skips. The Municipality urgently need more skips in order to render refuse collection service within those informal settlements.

The condition of 1.75m3 refuse bins is also a problem as the containers falling apart and a health hazard to the businesses. These containers need to be replaced with the 1100L wheel bins in order to render this service to the businesses within CBD. The plan is to lease out old 1.75m3 bins to the businesses in the industrial area.

The street litter bins are damaged and without bottom. The bins need to be replaced and protected from misuse by businesses. The bins are meant to be used by the public to dispose litter but bins are without bottoms and old.

WASTE RECYCLING: MULT RECYCLING BUY BACK CENTRES

The Lukhanji Local Municipality is also facing a problem of illegal dumping in public open spaces and pavements. The Lukhanji Landfill site is receiving high volume of waste [estimated to be +-135 tons per day] of which 70% of that waste can be recycled. The opening of Multi recycling buy back centres in Lukhanji will reduce waste collected by the Municipality in businesses and households and also reduce the volume of waste.

A number of beautification programmes have been undertaken during the year under review.

3.1.5 Human Settlement

The Housing Act (Act 107 of 1997) and other pieces of legislation require municipalities to formulate housing strategies and targets and incorporate these into their integrated development plans (IDP's) in the form of Housing Chapters.

The Housing Chapter/ housing sector plan are intended to guide the Municipality to deliver housing in a planned, integrated and coordinated manner. If successfully implemented, the Plan will help the Municipality provide housing to all, stimulate the local economy through housing development, create an environment for local job creation and address the housing needs of the aged, the disabled and HIV/AIDS victims. It will also enable the Municipality to correct the spatial disparities of the apartheid era and ensure that integration and coordination happen between housing and other service provision such as infrastructure development, roads, transport, education, health, tourism, safety and security, etc. In order to respond to the above the municipality has a Housing Sector Plan in place. This plan indicates the housing backlogs as well as the projects to address them.

Household dynamics

There are 51 173 households in the municipality, with an average household size of 3,5 persons per household. The majority of households in Lukhanji reside in urban formal dwellings and a small minority lives in rural and farm areas.

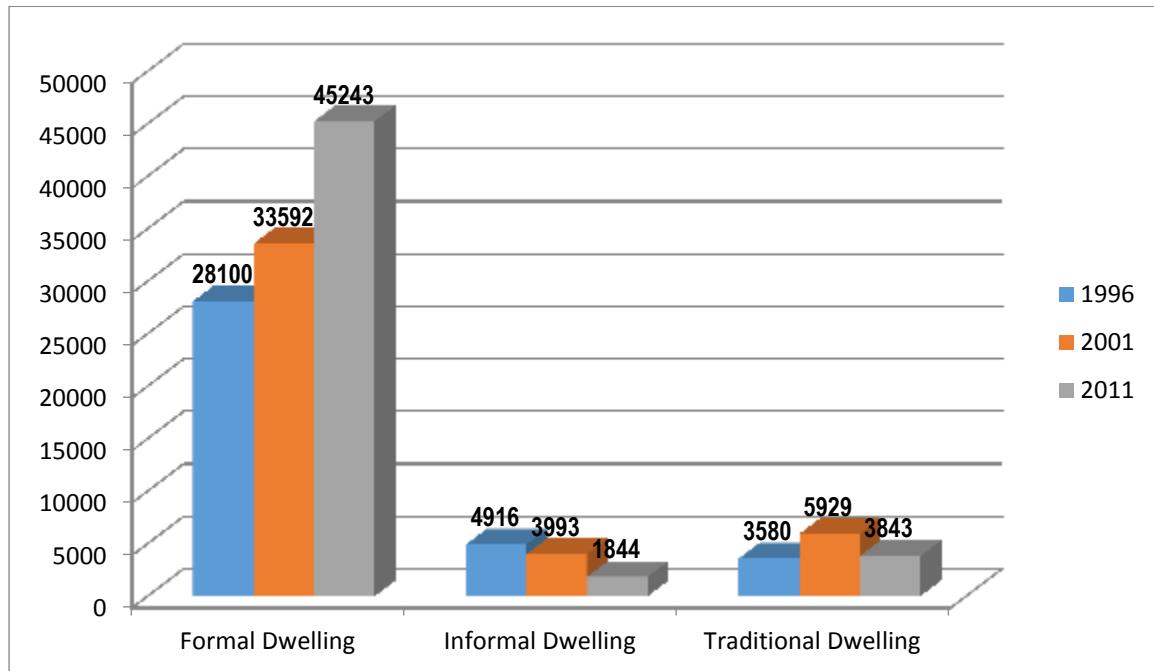


Figure: Settlement Type

(Source: STATSSA 2011)

Of the total households in Lukhanji, 85% constitutes formal dwelling, 7.5% traditional dwelling and 3.6% informal dwelling. The existence of 21% households in rural villages and 16% in peri-urban settlements poses a challenge for service infrastructure expansions and delivery of essential services. The majority of underserved households with regards to water, sanitation, refuse; electricity and road network comes from these settlement areas. It is therefore necessary to design targeted programmes for infrastructure delivery to these areas as part of implementing the new priority of Rural Development.

The housing sector plan was reviewed in 2013/14.

Currently the municipality is acting as a facilitator in housing development. The function is performed by the Department of Human Settlement provincially. Due to the massive development that is currently taking place in the municipality and the envisaged integration of former homelands into the mainstream, the municipality intends to apply for a housing developer status.

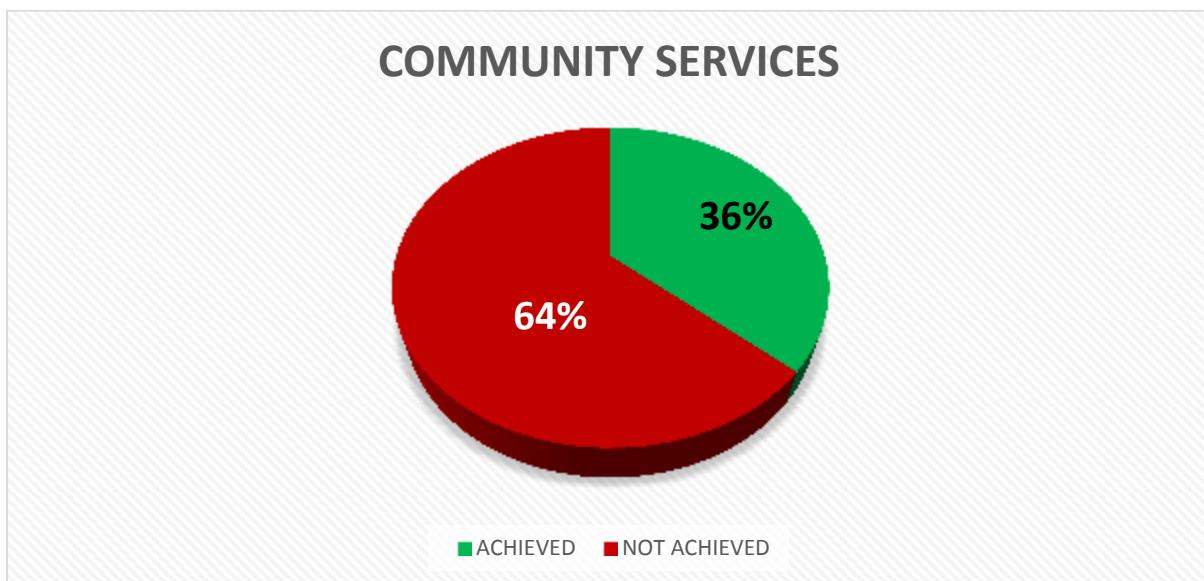
The Department of Rural Development and Land Reform has made an undertaking to transfer Erf 178 (located in Whittlesea) to the municipality.

3.1.6 Spatial Development Framework

One of the key achievements of the municipality under this priority area is the review of the Spatial Development Framework in the year under review. The reviewed SDF is in line with SPLUMA provisions.

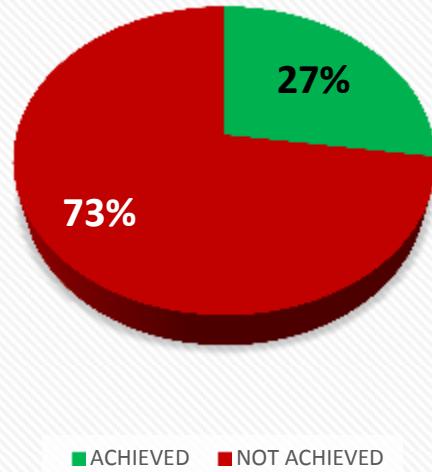
Due to the envisaged massive development around the Queenstown area the municipality is finalising the development of Local SDF for the Queenstown area.

The Basic Services KPA had 50 targets and the municipality managed to achieve 35 of the 50 targets set as depicted by the charts below.



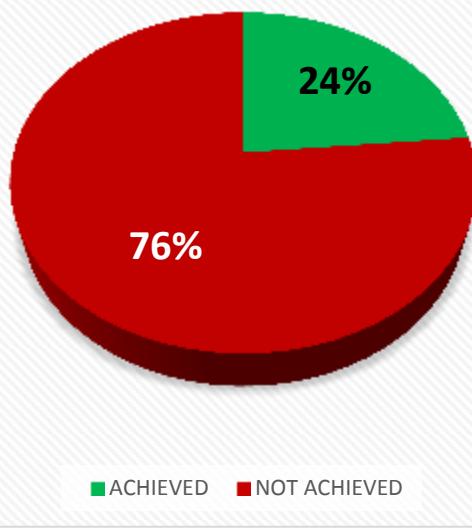
Community Services = 22 targets, 8 Achieved – 14 Not Achieved

TECHNICAL SERVICES



Technical Services = 11 Targets, 3 Achieved – 8 Not Achieved

HUMAN SETTLEMENT



Human Settlements Targets = 17 Targets, 4 Achieved – 13 Not Achieved

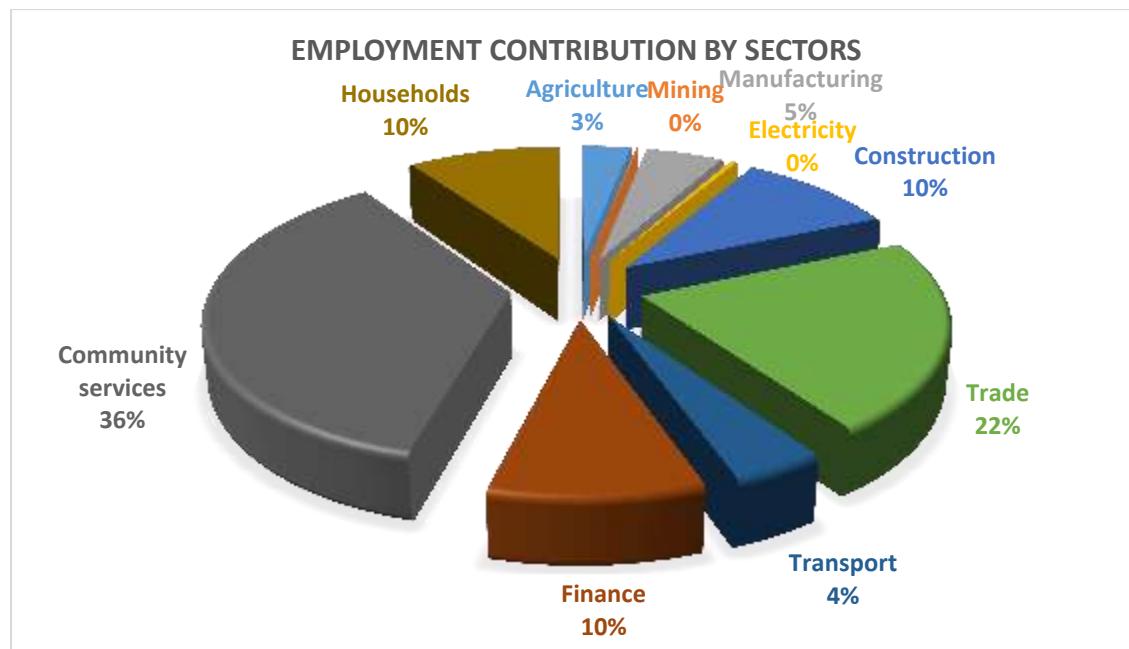
CHAPTER 3: LOCAL ECONOMIC DEVELOPMENT

4.1 Socio – economic Status

Lukhanji municipality's socio-economic situation shows that the major sectors that contribute to employment as at 2013 were the community services at 36%, trade at 22%, finance, construction and households at 10% each. It is important to note that agriculture contributes only 3% to employment in the municipality despite its potential.

The worrying trend is the growth in unemployment from about 27% in 2010 to 30% in 2013.

The graphs below depicts the above analysis.



4.2 LOCAL ECONOMIC DEVELOPMENT STRATEGY

Lukhanji Municipality's LED strategy was last reviewed in 2008 .It was due for review in the year under review but it was not reviewed and the project has been moved to the 2015/2016 financial year.

Local Economic development has the following sectors in the municipality: SMME and cooperatives development, agriculture, tourism and heritage development, manufacturing, mining, etc.

4.3 Tourism Development and Heritage

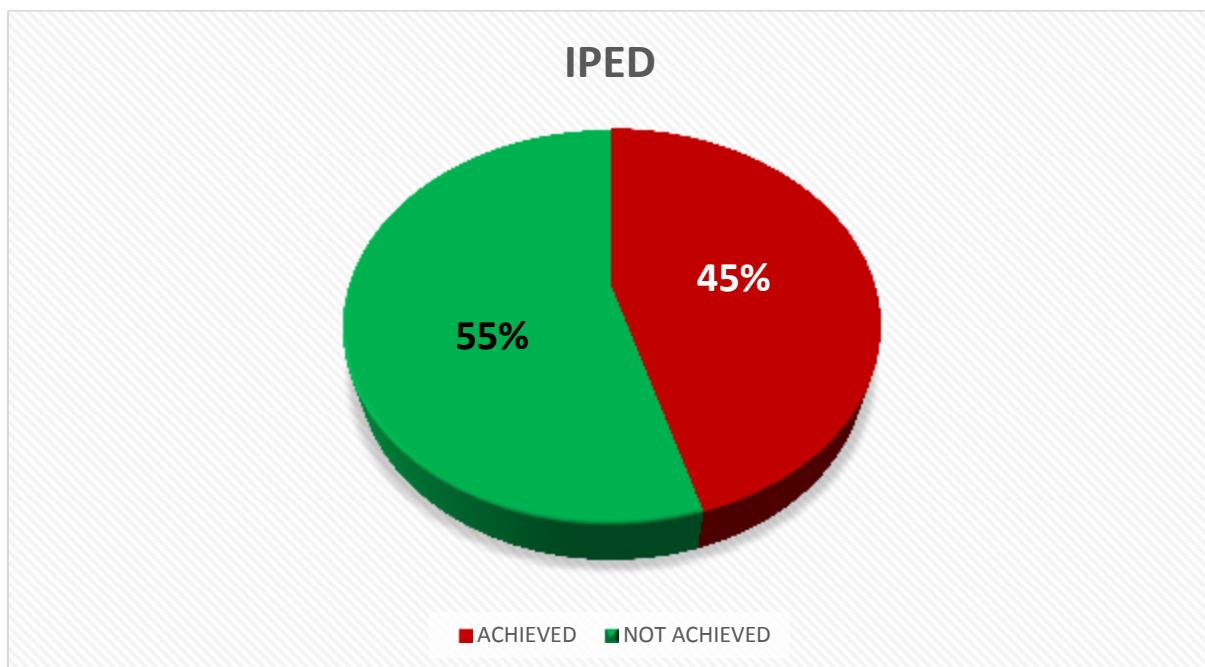
Tourism is one of the growing economic sectors of the municipality. It continues to show prospects of job creation, skills development and marketing of the municipality as a tourism destination. The

Tourism Sector Plan was developed in 2005 but needs to be reviewed. The municipality is in the process of reviewing the plan.

The municipality identified the Bonkolo dam as a tourist site, and sourced funding for the development of the site. The National Department of Tourism approved an application for the development of the site and allocated an amount of R15 million. The project is still on-going.

Bullhoek Massacre Memorial site forms part of the Chris Hani Heritage Liberation route. To that effect, the municipality sourced funding to development the area as a heritage site. Funding was secured from the National Department of Tourism for the establishment of a museum, a monument and cultural village. Phase1 of the project is completed and phase 2 of the project has been approved by the Department for the establishment of a tourist attraction center of the site. The site is located in the Whittlesea area.

The municipality in partnership with the Department of Tourism and the South African Heritage Resource Council is in the process of having the site declared to be of national significance due to the history and the events that took place on the site in 1921.



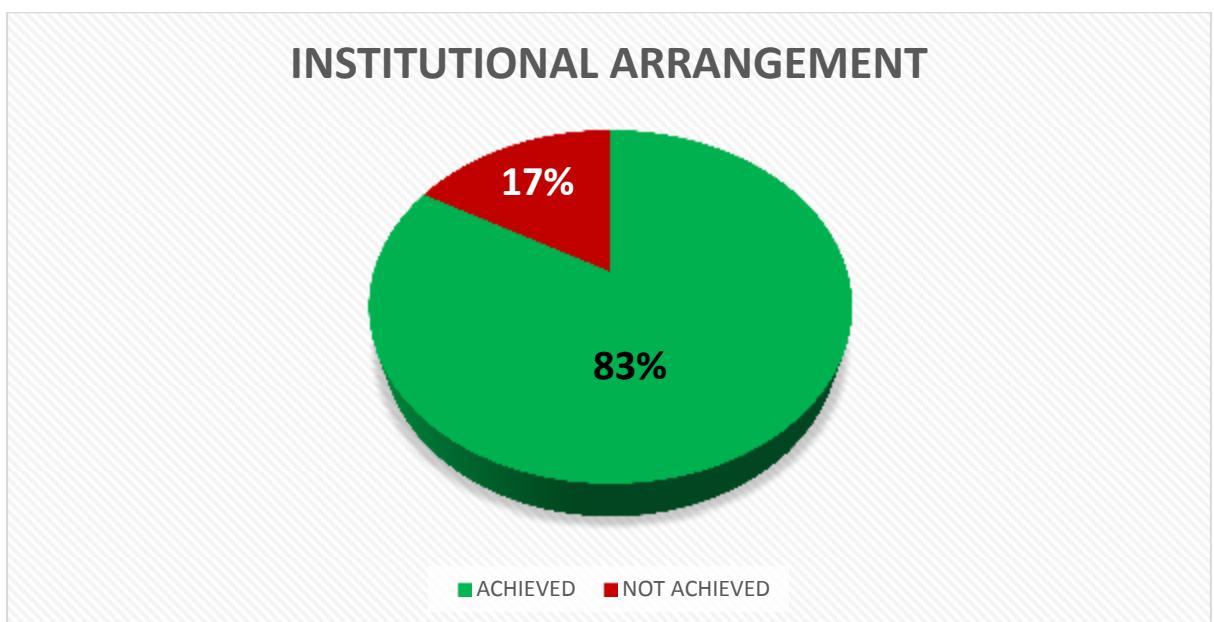
Targets set 22 : Achieved = 10 -- Not Achieved = 12

CHAPTER 4 : INSTITUTIONAL ARRANGEMENTS AND ORGANIZATIONAL DEVELOPMENT KPA

The municipality has a revised organizational structure that was approved in 2014. This is a key municipal achievement, as the last review of the organisational structure was in 2002. Almost 80% of all the budgeted posts were filled in the year under review.

In accordance with the Employment Equity Act (No. 55 of 1998), Lukhanji Municipality developed and implemented the Employment Equity Plan as required by the said act. The purpose of the policy is to state the broad principles of employment equity to which the Lukhanji Municipality is committed and to describe in general how the Municipality seeks to realize these principles.

The municipality reviewed its Work Place Skills Plan in year under a review. A number of officials and councillors are beneficiaries of the municipality's bursary scheme.

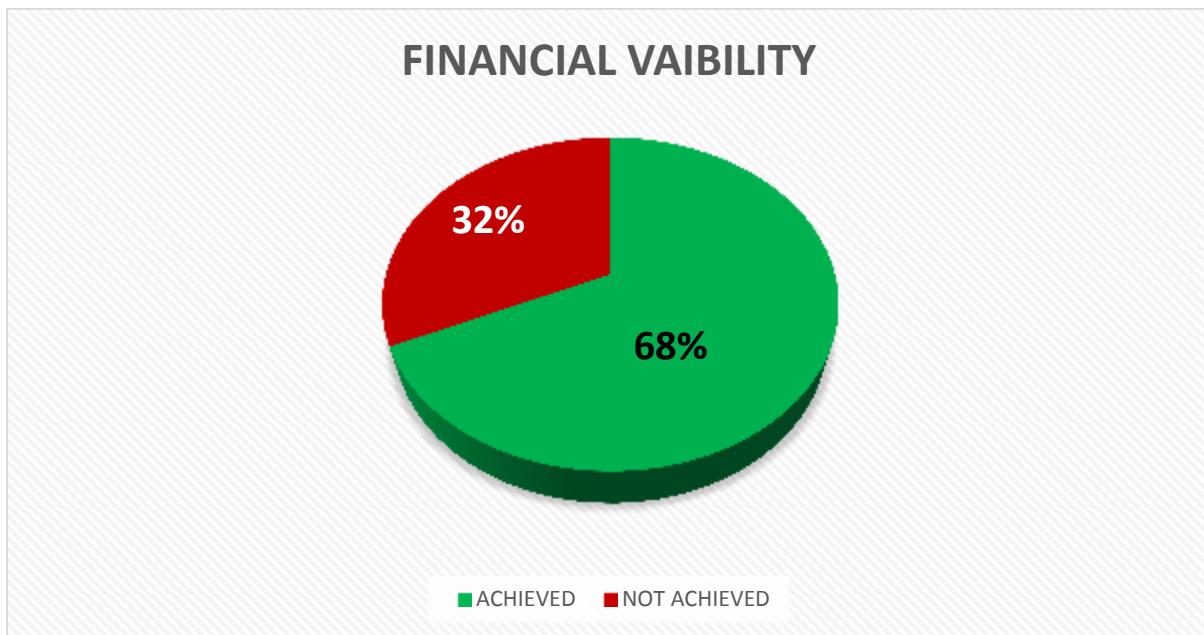


12 Targets: Achieved =10 -- Not Achieved = 2

CHAPTER 5 FINANCIAL VIABILITY

6.1 Free Basic Services And Indigent Support

The municipality has a policy on indigent and has provided services and support to the indigents in line with its policies and in the context of its budget and resources. The table below shows the number of households that benefited from the free basic services programme from the municipality. The free basic services provided were water (19%), electricity (36%), sanitation (19%) and refuse (19%).



Targets set 22: Achieved = 15 -- Not achieved = 7

Summary 4: Operating Cash Expenditure by Directorate						June 2015		
Directorate	Original Budget (R000)	Revised Budget (1) (R000)	Planned YTD (SDBIP) (1) (R000)	Actual YTD (R000) (1)	Variance (R000)	Variance (%)	Nett Increase/ - (Decrease) SDBIP	Nett Increase/ - (Decrease) Actual
Municipal Manager	12 172	12 172	11 158	8 772	-2 386	-21%	-7 376	-9 761
Administrative Services	7 115	7 115	6 522	6 288	-234	-4%	6 522	6 288
Budget & Treasury	27 404	27 404	25 120	22 093	-3 027	-12%	567	-2 460
Council	32 874	32 874	30 135	28 852	-1 283	-4%	30 135	28 852
Community Services	44 762	44 762	41 032	34 708	-6 324	-15%	17 202	10 878
Community Safety	31 484	31 484	28 860	25 029	-3 831	-13%	28 860	25 029
IPED	3 253	3 253	2 982	2 581	-401	-13%	2 982	2 581
Technical Services	225 027	225 027	206 275	179 858	-26 416	-13%	206 275	179 858
Human Settlements	15 074	15 074	13 817	9 049	-4 768	-35%	3 084	-1 684
TOTAL	399 166	399 166	365 900	317 229	-48 671	-13%	288 251	239 580
<i>(1) Includes Operating Grants</i>								

Summary 2: Capital Expenditures by Directorate						June 2015
2014/15 By Directorate	Original Budget (R000)	Revised Budget (R000)	Planned YTD (SDBIP) (R000)	Actual YTD (R000)	Variance (R000)	Variance (%)
Community Services	11 800	11 904	11 904	9 861	-2 042	-17%
Budget & Treasury	2 770	2 770	2 770	839	-1 931	-70%
Human Settlements	8 860	10 487	10 487	8 970	-1 517	-14%
IPED	0	3 312	3 313	0	-3 313	-100%
Technical Services	43 931	40 922	40 923	25 514	-15 408	-38%
TOTAL	67 361	69 396	69 396	45 185	-24 211	-35%

CHAPTER 6: GOOD GOVERNANCE

7.1 Good Governance and Public Participation

The Good Governance Cluster encompasses:

- Municipal Governance for which the Executive Mayor, Speaker, Chief Whip + MM (Troika +1) are responsible.
- The MPAC who is responsible for general oversight of all Council Activities
- Municipal Communications and Special Programmes and IGR which are located in the office of the Executive Mayor.

The Lukhanji Council uses the Mayoral Executive System where the Executive authority is vested in Mayor. The Mayor appointed a Mayoral Committee with each appointed member heading the following portfolios:

- Finance
- Integrated Planning and Economic Development
- Human Resources and Administration
- Community Services
- Human Settlement and Land Development
- Community Safety
- Technical Services.

Council appointed an additional Portfolio Head for the Municipal Public Accounts Committee. This Portfolio Head reports directly to Council and not to the Executive Mayor.

The Council is made up of 54 Councillors representing the following political parties:

POLITICAL PARTY	NO OF COUNCILLORS	GENDER DISTRIBUTION	
		MALE	FEMALE
ANC	45	23	22
DA	5	4	1
UDM	1	1	0
COPE	2	1	1
PAC	1	1	0

7.1.1 COMMUNITY AND PUBLIC PARTICIPATION

The Public Participation Strategy was developed and adopted by Council in August 2014. It outlines the process the municipality has to undertake to consult with community and stakeholders and mainly seeks to create an avenue for Council to:

- Report back and account to residents about council decisions, plans and budgets
- Inform people of new services, tariffs, developments and policies
- Involve people in partnerships for delivery.

The recently adopted Organogram makes provision for the appointment of Public Participation Officer – The establishment of a fully-fledged unit needs to be considered.

In the interim, Mayoral Committee appointed a unit consisting of SEO, Communications Manager and IGR Officer to beef up the function.

The Council has 27 Ward Councillors of which 26 are represented by African National Congress and 1 by the Democratic Alliance.



8 CONCLUSION

Lukhanji Local Municipality tried its best to serve the community with distinction during the 2014/2015 financial year. This report clearly demonstrates the commitment of the municipality to ensure that the local communities have access to their basic needs. Our priority focus was the provision of basic services (water, sanitation, electricity, roads and storm water); eradication of informal housing settlements through proper housing; Local Economic Development, institutional development, social development particularly focusing on HIV and AIDS and the mainstreaming of designated groups.

Below is a summary of the projects that were implemented in the year under review:

The construction of Whittlesea public toilet benefiting Ward 17

Fencing of grazing camps in Zingquthu benefiting Wards 26 and 27

Extension and renovation of a shearing shed in Zingquthu – Ward 26

Construction of Upper Machibini shearing shed – Ward 3

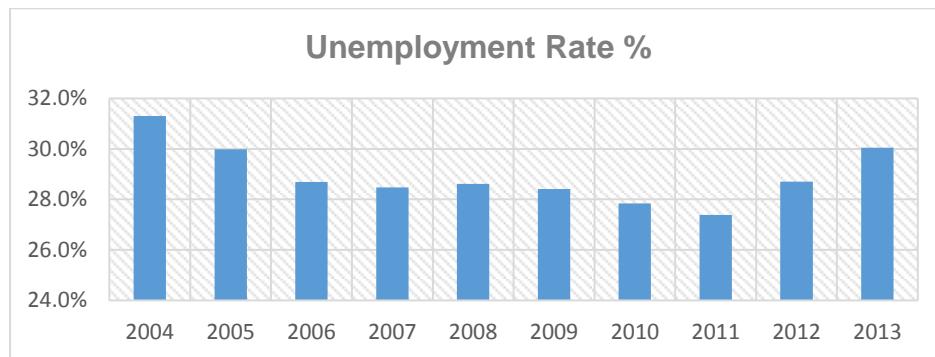
Surfacing of gravel road in ILinge and Ekuphumleni – Ward 2 and 16

Renovation of ablution block in Ezibeleni stadium Maintenance of surface roads Pelem Road in Ward 6. This project has been completed with own funds.

- Construction of Phase 3 of Dumpy Adams stadium – Ward 19
- Upgrading of SADA Stormwater – Ward 9

- Construction of community hall in ward 13, Lower Hukuwa.
- Renovation and extension of ablution block in SADA stadium – Ward 11 and,
- Inter-modal public transport facility: Site B

The municipality has made significant progress in the provision of services to its community based on the 2011 census; however the census showed that the level of unemployment rate particularly amongst the youth and poverty within Lukhanji continues to grow as depicted by the graph below



In conclusion; gratitude is extended to the community of Lukhanji for their maximum participation in the IDP process; Council and Administration for their commitment to service excellence in Lukhanji.

Report submitted by

MRS. N. GQIBA

MUNICIPAL MANAGER

Approved by Council on 28 August 2015

COUNCILOR MAKANDA

EXECUTIVE MAYOR

CHAPTER 5 – FINANCIAL PERFORMANCE

This chapter contains information regarding financial performance and highlights specific accomplishments.

COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

This chapter contains information regarding financial performance and highlights specific accomplishments. This chapter comprises of three components:

Component A: Statement of Financial Performance

Component B: Spending Against Capital Budget

Component C: Other Financial Matters

5.1 STATEMENTS OF FINANCIAL PERFORMANCE

COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

This component provides an overview of the financial performance of the municipality and focuses on the financial health of the municipality.

Reconciliation of Table A1
Budget Summary

Description R thousands	Year 0											Year	
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA
	1	2	3	4	5	6	7	8	9	10	11	12	13
Financial Performance													
Property rates	75,162	448	75,610			75,610	74,340			1.68	1.09		
Service charges	209,491	(50)	209,441			209,441	208,533			0.43	0.46		
Investment revenue	8,200	–	8,200			8,200	7,975			2.74	2.74		
Transfers recognised - operational	128,899	1,694	130,593			130,593	120,264			7.91	6.70		
Other own revenue	34,461	22,628	57,089			57,089	30,260			47.00	12.19		
Total Revenue (excluding capital transfers and contributions)	456,213	24,720	480,933				441,372						
Employee costs	133,286	(2,084)	131,202			131,202	118,945			9.34	10.76		
Remuneration of councillors	20,167	–	20,167			20,167	20,756			(2.92)	(2.92)		
Debt impairment	54,564	3,306	57,869			57,869	–			100.00	100.00		
Depreciation & asset impairment	29,117	(5,220)	23,897			23,897	–			100.00	100.00		
Finance charges	1,286	(1,074)	212			212	188			11.26	85.38		
Materials and bulk purchases	150,240	14,840	165,081			165,081	146,885			11.02	2.23		
Transfers and grants	4,733	1,693	6,426			6,426	5,709			11.16	(20.62)		
Other expenditure	62,819	13,259	76,078			76,078	47,750			37.24	23.99		
Total Expenditure	456,212	24,720	480,931										

Surplus/(Deficit)											
Transfers recognised - capital	40,591	0	40,591			40,591	34,980		13.82	13.82	
Contributions recognised - capital & contributed assets	26,769	1,835	28,605			28,605	10,205		64.32	61.88	
Surplus/(Deficit) after capital transfers & contributions											
Share of surplus/ (deficit) of associate			–			–					
Surplus/(Deficit) for the year											
<u>Capital expenditure & funds sources</u>											
Capital expenditure											
Transfers recognised - capital			–			–					
Public contributions & donations			–			–					
Borrowing			–			–					
Internally generated funds			–			–					
Total sources of capital funds											
<u>Cash flows</u>											
Net cash from (used) operating			–			–					
Net cash from (used) investing			–			–					
Net cash from (used) financing			–			–					
Cash/cash equivalents at the year end											

Notes

3 = sum of column 1 and 2

2 represents movements in original budget to get to final adjustment budget
(including shifting of funds)

Payments must offset each other so that payments in Total

Expenditure equals zero

6 = sum of column 3, 4 and 5

8 does not necessarily equal the difference between 9 and 8 because overspending is not the only reason for unauthorised expenditure

9 = 7 - 6

10 = (7/6)*100

11 = (9/1)*100

14 = 13 - 12

15 in revenue equals Audited Outcome plus
funds actually recovered

15 in expenditure equals Audited Outcome less funds actually
recovered

15 in Cash Flow equals Audited Outcome
plus funds recovered

This schedule must be part of the financial statements of the municipality (all other schedules, A2 - A7, should form part of the annexures to the financial statements. These schedules do not directly form part of the audit opinion)

Financial Performance of Operational Services						
Description	Year -1	Year 0		Year 0 Variance		R '000
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
Operating Cost						
Water	–	–	–	–	0.00%	0.00%
Waste Water (Sanitation)	–	–	–	–	0.00%	0.00%
Electricity	210,186	224,981	162,892	–	-29.03%	-38.12%
Waste Management	37,588	38,976	18,108	–	-107.58%	-115.24%
Housing	7,921	6,625	2,278	–	-247.76%	-190.87%
Component A: sub-total	–	255,695	270,582	183,278	-39.51%	-47.63%
Waste Water (Stormwater Drainage)	–	–	–	–	–	–
Roads	30,326	28,740	16,850	–	-79.98%	-70.56%
Transport	5,209	6,443	5,574	–	6.55%	-15.58%
Component B: sub-total	–	35,536	35,182	22,424	-58.47%	-56.89%
Planning Local Economic Development	16,708	17,118	13,796	–	-21.11%	-24.08%
	3,290	3,253	2,828	–	-16.33%	-15.03%
Component B: sub-total	–	19,998	20,371	16,624	-20.29%	-22.54%
Planning (Strategic & Regulatory) Local Economic Development	–	–	–	–	–	–

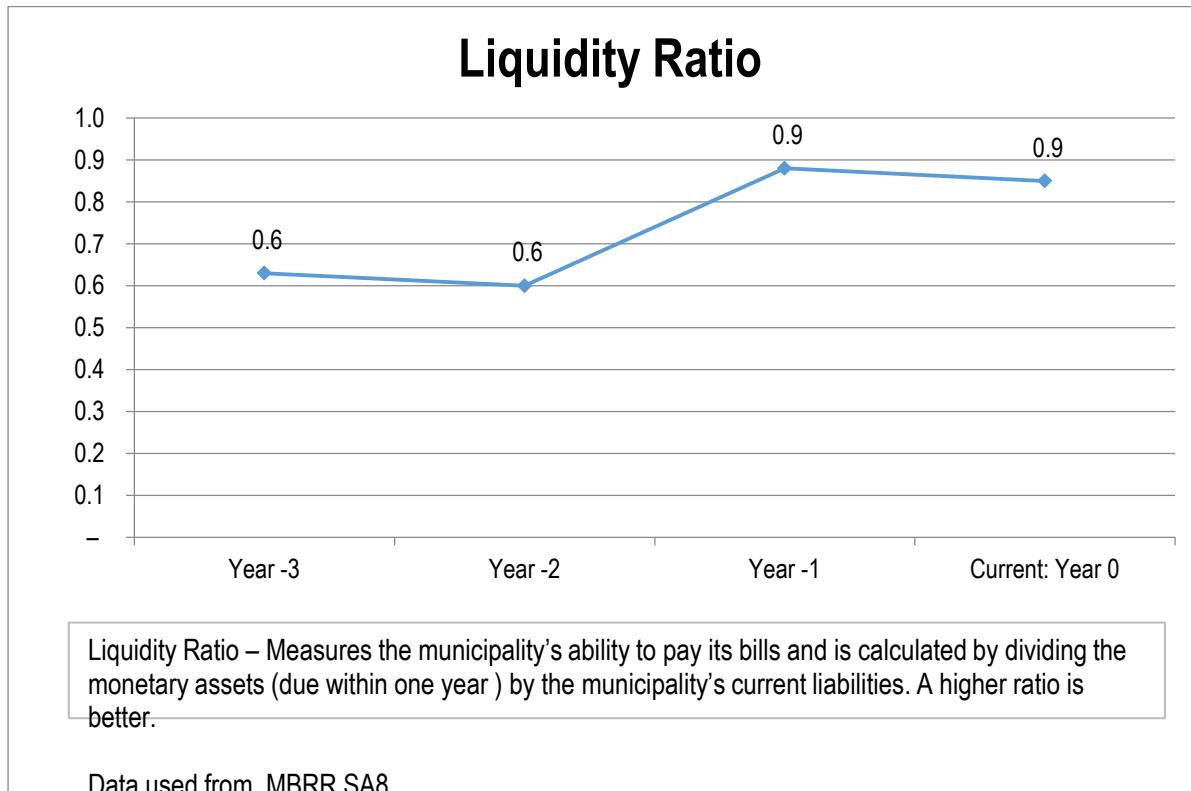
Component C: sub-total	-	-	-	-	-
Community & Social Services	13,504	13,251	12,090	-11.69%	-9.60%
Environmental Protection	-	-	-	0.00%	0.00%
Health	-	-	-	0.00%	0.00%
Security and Safety	27,929	31,484	27,801	-0.46%	-13.25%
Sport and Recreation	11,438	11,503	10,169	-12.48%	-13.12%
Corporate Policy Offices and Other	92,114	98,558	75,521	-21.97%	-30.50%
Component D: sub-total	-	144,985	154,796	-15.45%	-23.26%
Total Expenditure	-	456,213	480,932	-31.13%	-38.24%
In this table operational income is offset against operational expenditure leaving a net operational expenditure total for each service as shown in the individual net service expenditure tables in chapter 3.					
Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual.					
T 5.1.2					

Grant Performance						
Description	Year -1		Year 0		Year 0 Variance	
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustments Budget (%)
Operating Transfers and Grants						
National Government:	110,010	113,546	113,546	113,546		
Equitable share	109,210	112,656	112,656	112,656		
Municipal Systems Improvement			890			

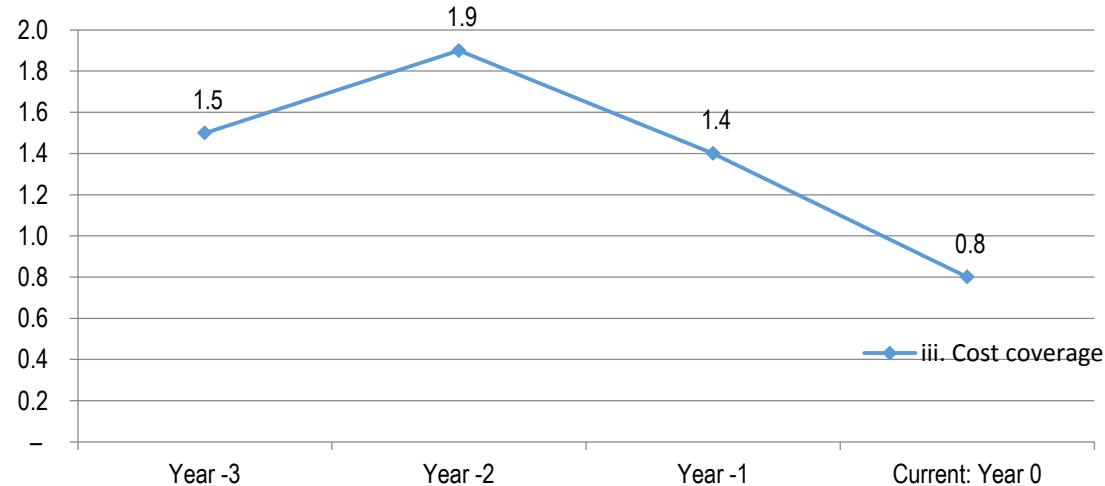
	800	890		890		
Department of Water Affairs Levy replacement						
Other transfers/grants [insert description]						
Provincial Government:	-	-	-	-		
Health subsidy						
Housing						
Ambulance subsidy						
Sports and Recreation						
Other transfers/grants [insert description]						
District Municipality:	-	-	-	-		
[insert description]						
Other grant providers:	-	-	-	-		
[insert description]						
Total Operating Transfers and Grants	110,010	113,546	113,546	113,546		
Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual.						
Full list of provincial and national grants available from published gazettes.						
<i>T 5.2.1</i>						

Repair and Maintenance Expenditure: Year 0				
	R' 000			
	Original Budget	Adjustment Budget	Actual	Budget variance

Repairs and Maintenance Expenditure	11569	13057	7735	33%
T 5.3.4				



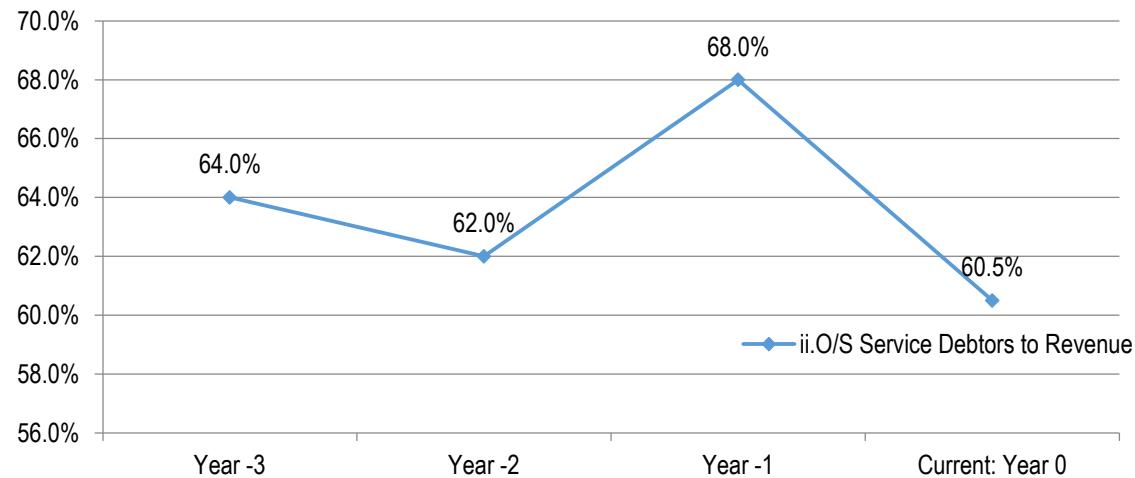
Cost Coverage



Cost Coverage— It explains how many months expenditure can be covered by the cash and other liquid assets available to the Municipality excluding utilisation of grants and is calculated

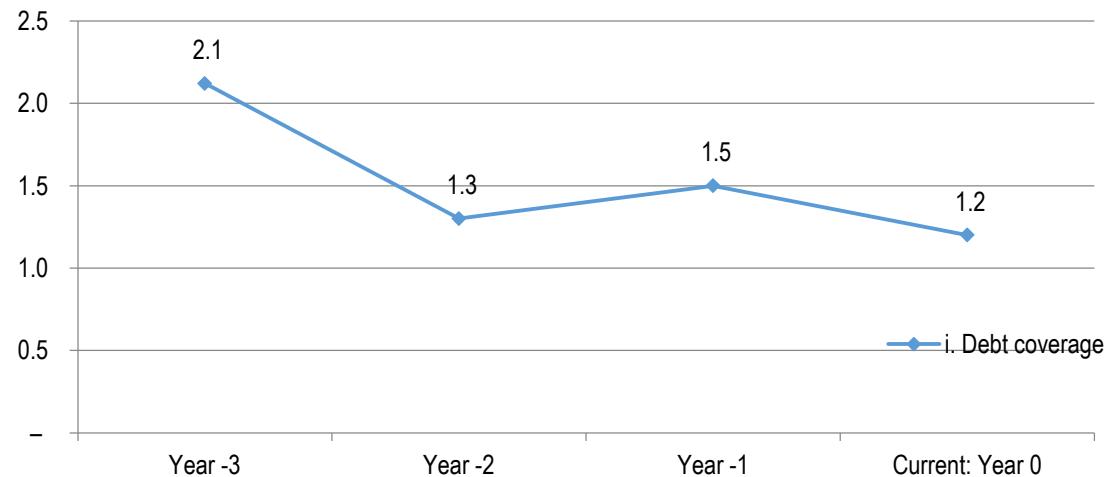
Data used from MBRR SA8

Total Outstanding Service Debtors



Total Outstanding Service Debtors – Measures how much money is still owed by the community for water, electricity, waste removal and sanitation compared to how much money has been paid for these services. It is calculated by dividing the total outstanding debtors by the total annual revenue. A lower score is better.

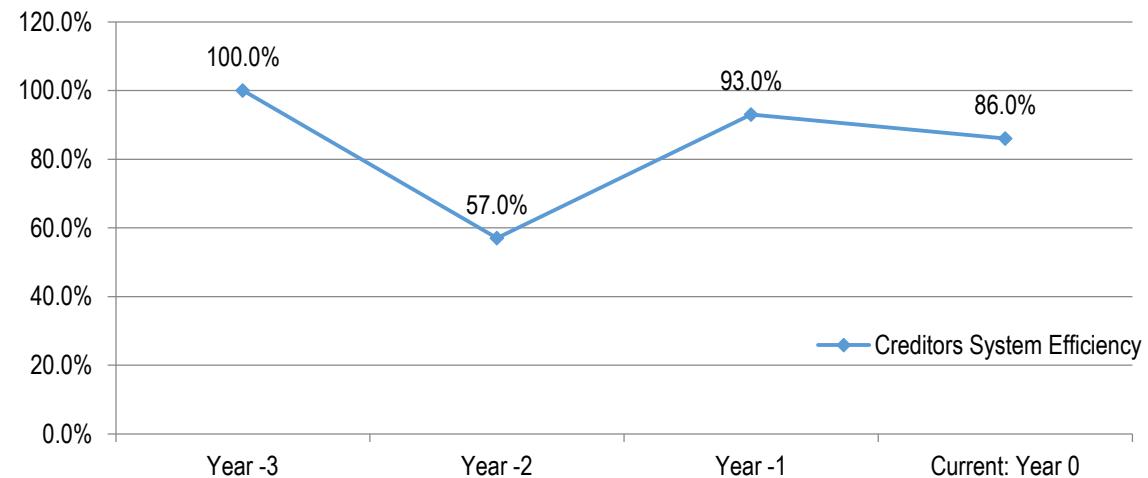
Debt Coverage



Debt Coverage— The number of times debt payments can be accommodated within Operating revenue (excluding grants) . This in turn represents the ease with which debt payments can be accommodated by the municipality

Data used from MBRR SA8

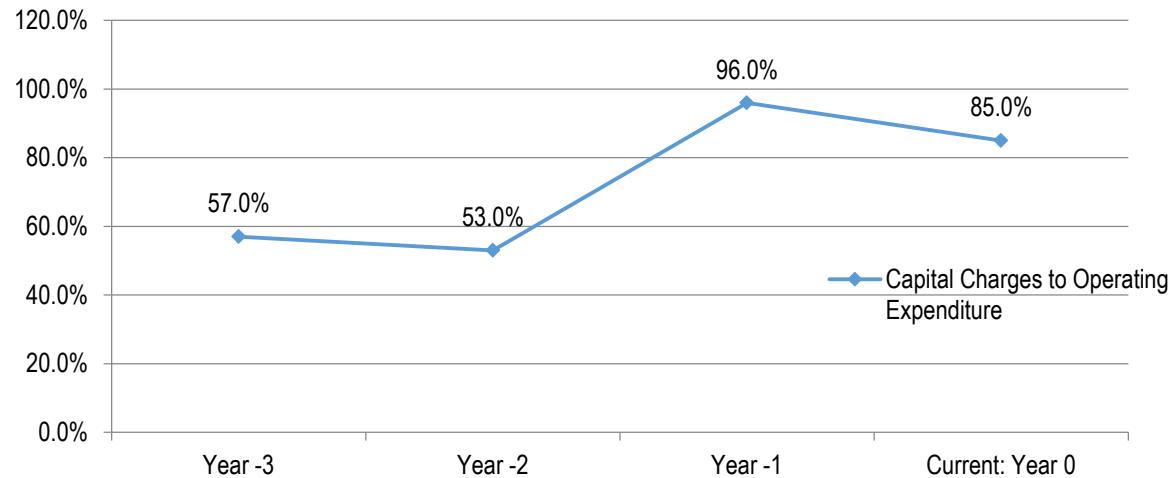
Creditors System Efficiency



Creditor System Efficiency – The proportion of creditors paid within terms (i.e. 30 days).
This ratio is calculated by outstanding trade creditors divided by credit purchases

Data used from MBRR SA8

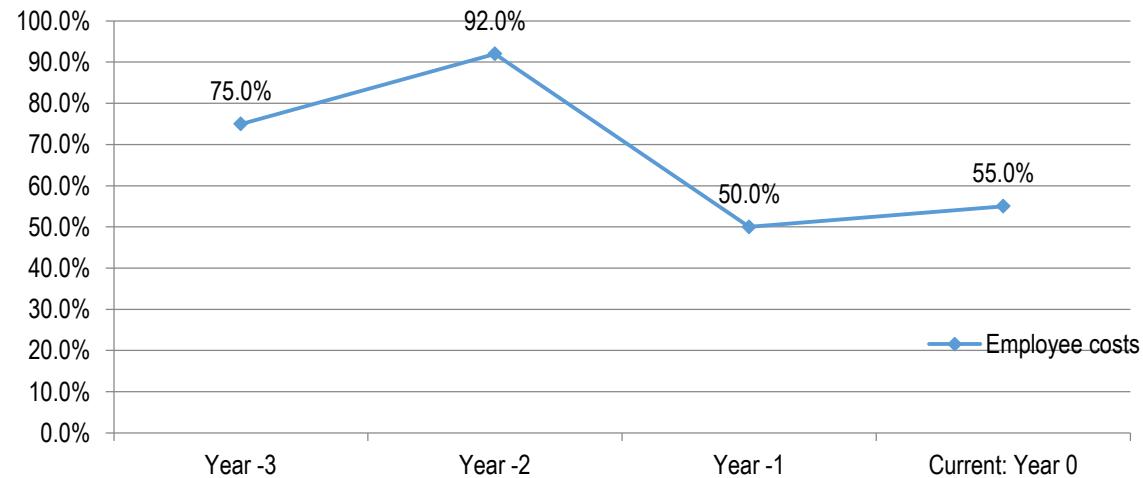
Capital Charges to Operating Expenditure



Capital Charges to Operating Expenditure ratio is calculated by dividing the sum of capital interest and principle paid by the total operating expenditure.

Data used from MBRR SA8

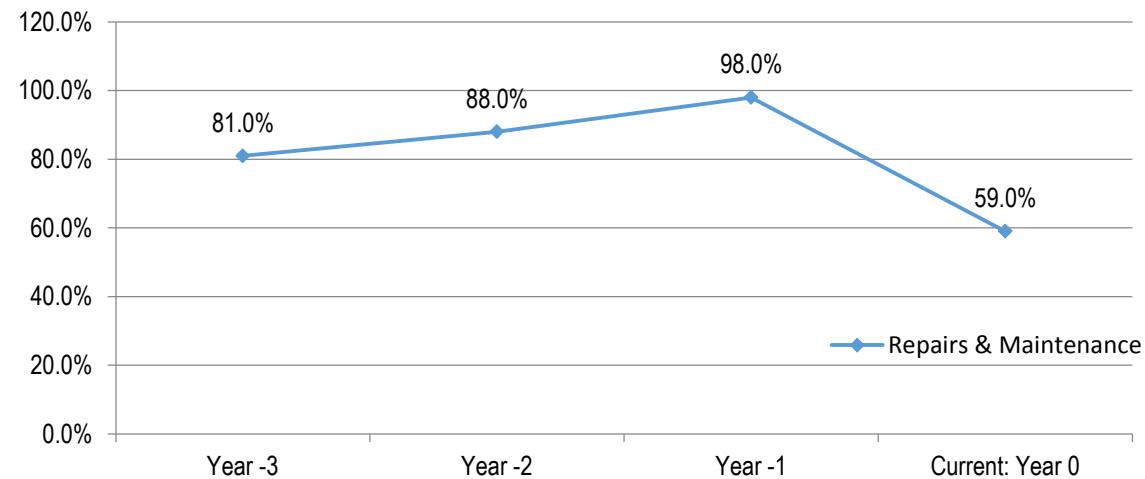
Employee Costs



Employee cost – Measures what portion of the revenue was spent on paying employee costs. It is calculated by dividing the total employee cost by the difference between total revenue and capital revenue.

Data used from MRRR S&A8

Repairs & Maintenance



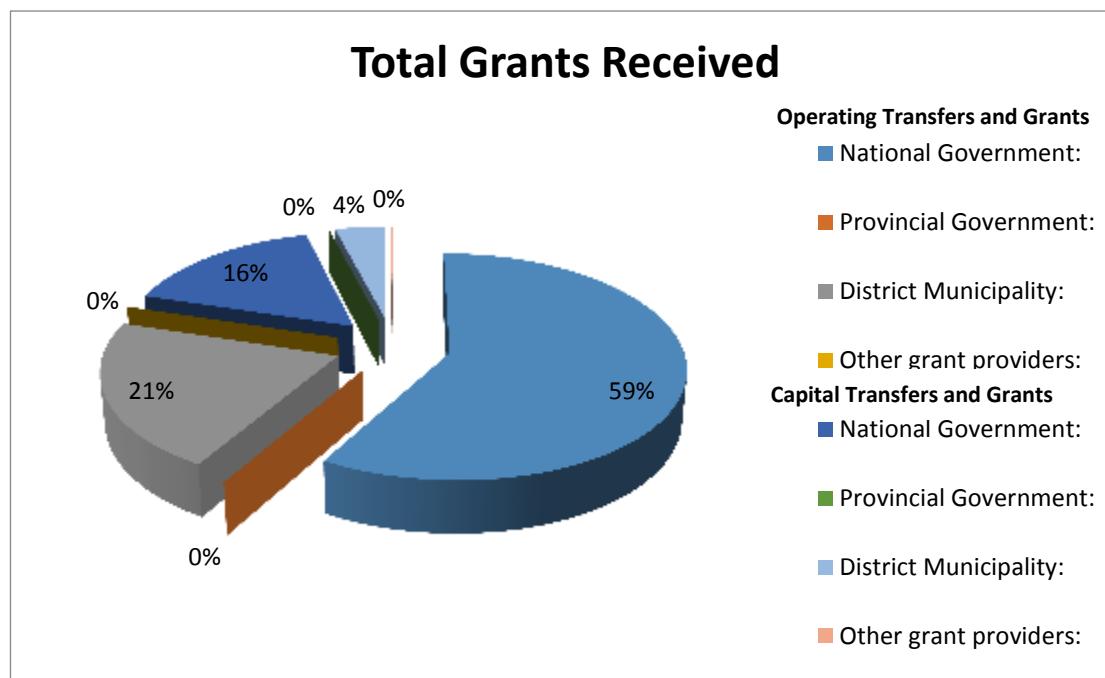
Repairs and Maintenance – This represents the proportion of operating expenditure spent and is calculated by dividing the total repairs and maintenance.

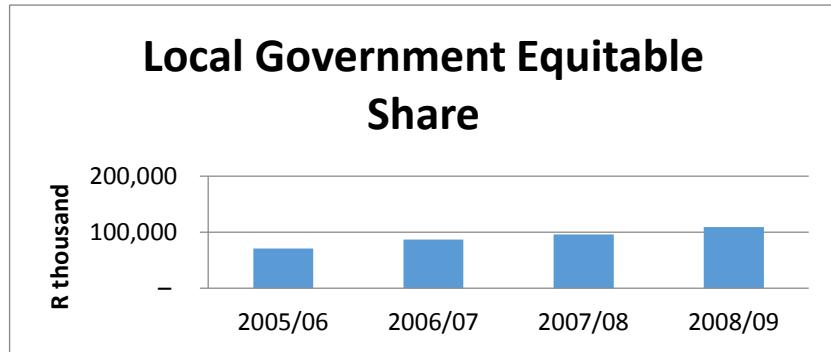
Data used from MBRR SA8

5.2 GRANTS

Description	Grant Performance						R' 000	
	Year -1		Year 0		Year 0 Variance			
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustments Budget (%)		
<u>Operating Transfers and Grants</u>								
National Government:	110,010	113,546	113,546	113,546				
Equitable share	109,210	112,656	112,656	112,656				
Municipal Systems Improvement	800	890	890	890				
Department of Water Affairs								
Levy replacement								
Other transfers/grants [insert description]								
Provincial Government:	-	-	-	-				
Health subsidy								
Housing								
Ambulance subsidy								
Sports and Recreation								
Other transfers/grants [insert description]								

District Municipality: [insert description]	-	-	-	-	
Other grant providers: [insert description]	-	-	-	-	
Total Operating Transfers and Grants	110,010	113,546	113,546	113,546	
Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual. Full list of provincial and national grants available from published gazettes.					
<i>T 5.2.1</i>					





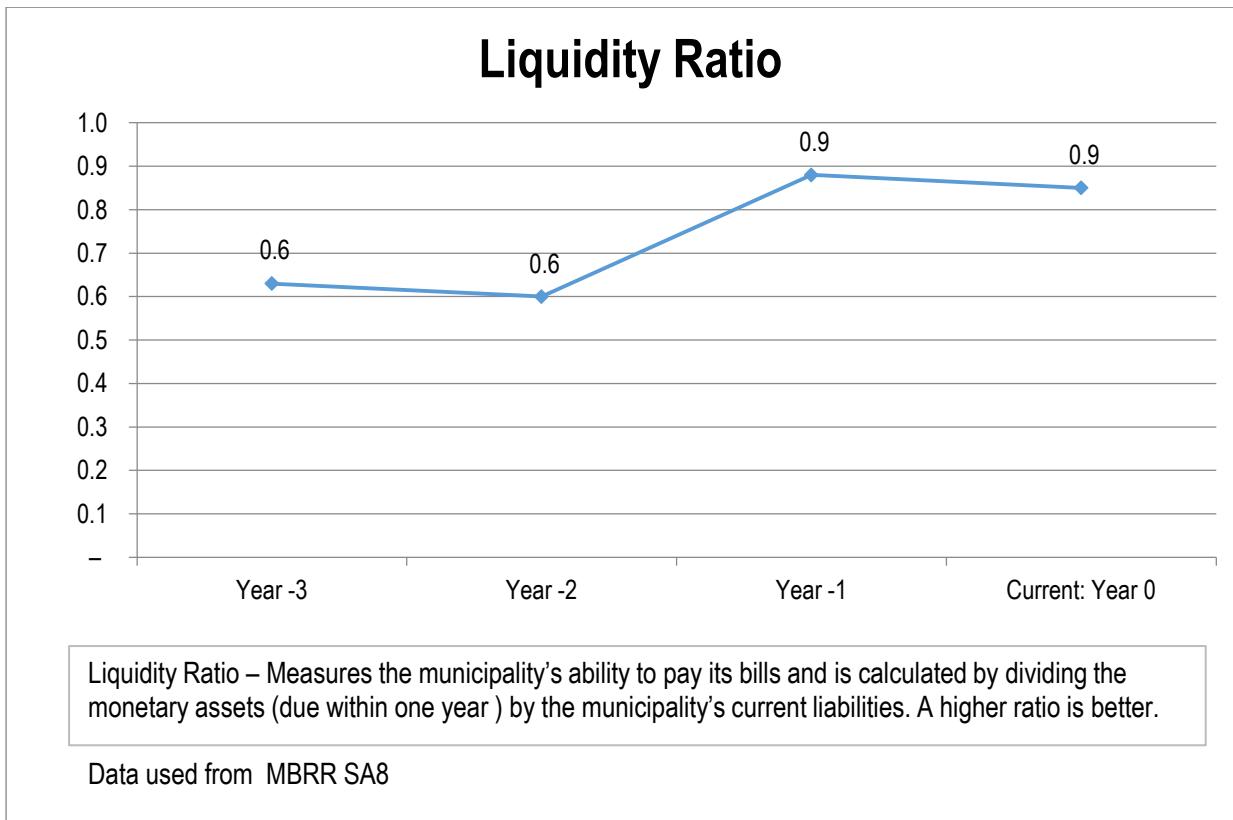
5.3 ASSET MANAGEMENT

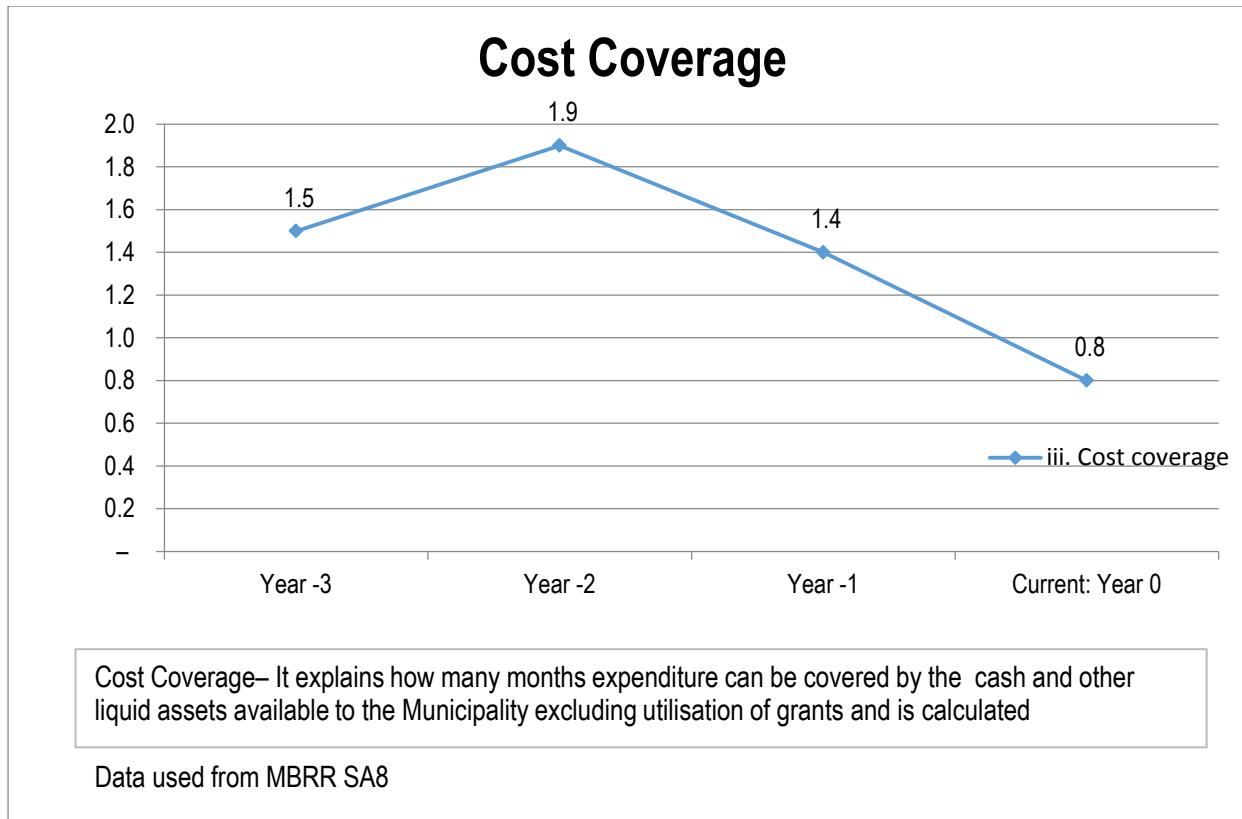
TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED YEAR 0				
Asset 1				
Name				
Description				
Asset Type				
Key Staff Involved				
Staff Responsibilities				
	Year -3	Year -2	Year -1	Year 0
Asset Value				
Capital Implications				
Future Purpose of Asset				

Describe Key Issues				
Policies in Place to Manage Asset				
Asset 2				
Name				
Description				
Asset Type				
Key Staff Involved				
Staff Responsibilities				
	Year -3	Year -2	Year -1	Year 0
Asset Value				
Capital Implications				
Future Purpose of Asset				
Describe Key Issues				
Policies in Place to Manage Asset				
Asset 3				
Name				
Description				
Asset Type				
Key Staff Involved				
Staff Responsibilities				
	Year -3	Year -2	Year -1	Year 0
Asset Value				
Capital Implications				
Future Purpose of Asset				
Describe Key Issues				
Policies in Place to Manage Asset				
T 5.3.2				

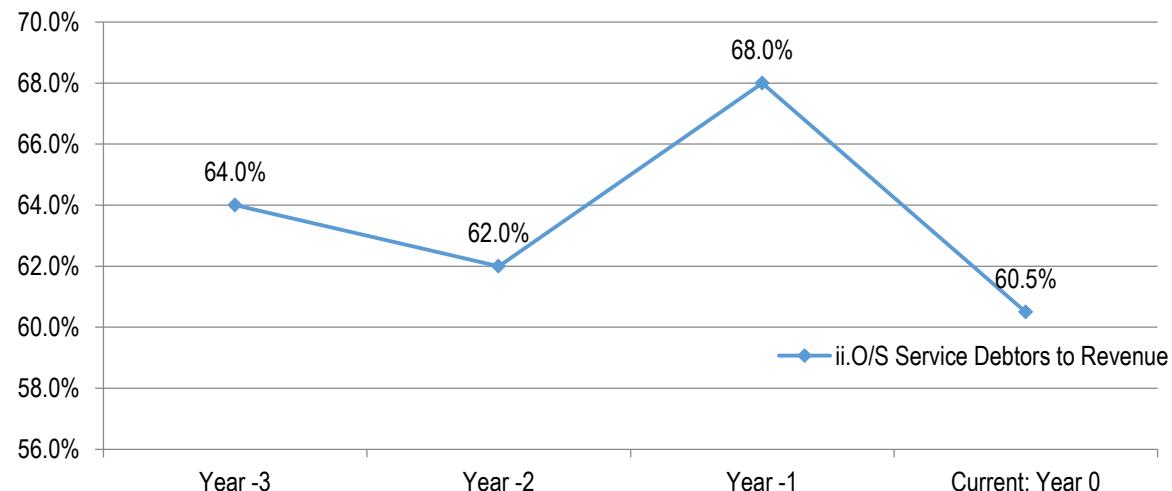
Repair and Maintenance Expenditure: Year 0				
	R' 000			
	Original Budget	Adjustment Budget	Actual	Budget variance
Repairs and Maintenance Expenditure	125	129	128	-2%
T 5.3.4				

5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS



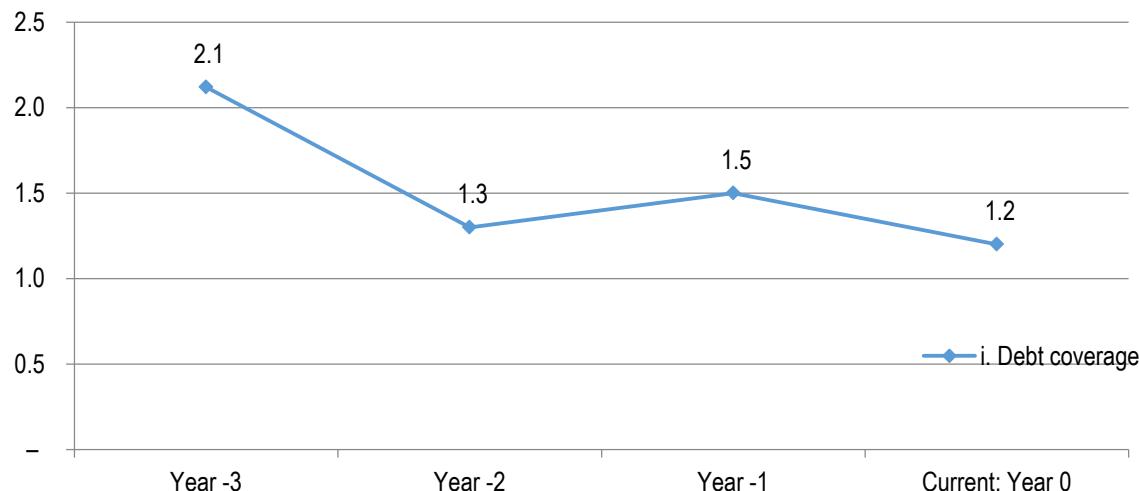


Total Outstanding Service Debtors



Total Outstanding Service Debtors – Measures how much money is still owed by the community for water, electricity, waste removal and sanitation compared to how much money has been paid for these services. It is calculated by dividing the total outstanding debtors by the total annual revenue. A lower score is better.

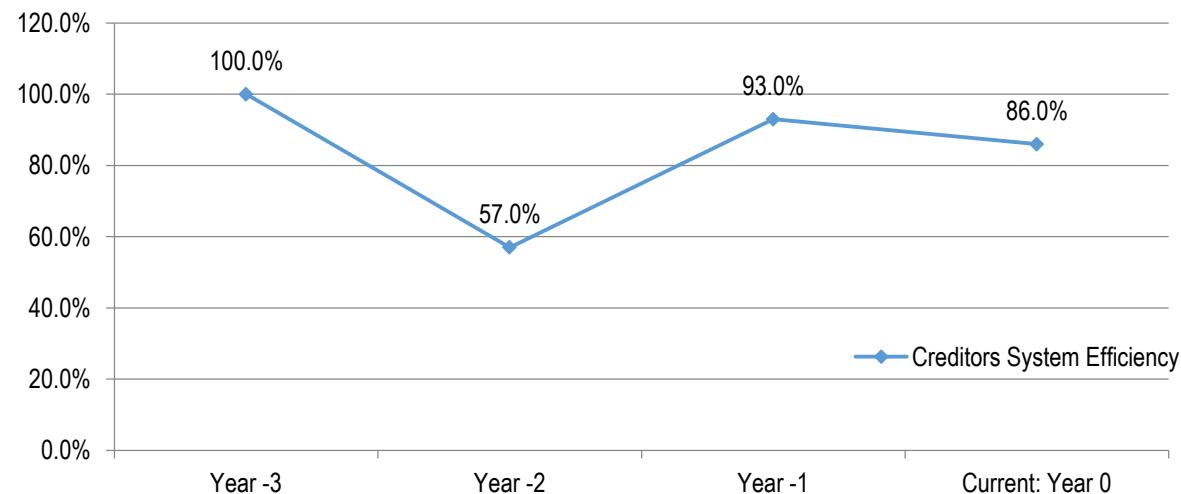
Debt Coverage



Debt Coverage— The number of times debt payments can be accommodated within Operating revenue (excluding grants) . This in turn represents the ease with which debt payments can be accommodated by the municipality

Data used from MBRR SA8

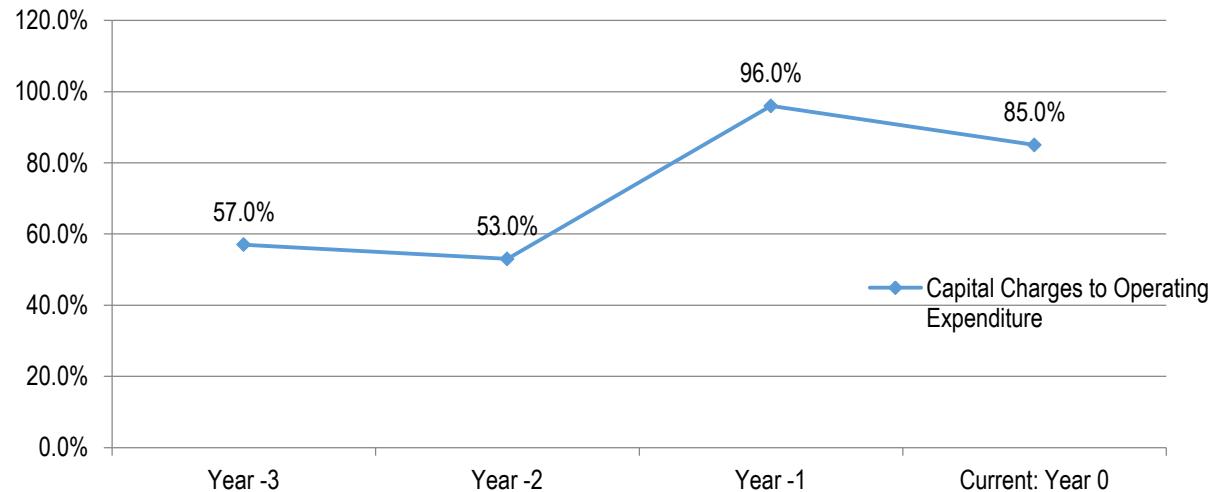
Creditors System Efficiency



Creditor System Efficiency – The proportion of creditors paid within terms (i.e. 30 days). This ratio is calculated by outstanding trade creditors divided by credit purchases

Data used from MBRR SA8

Capital Charges to Operating Expenditure



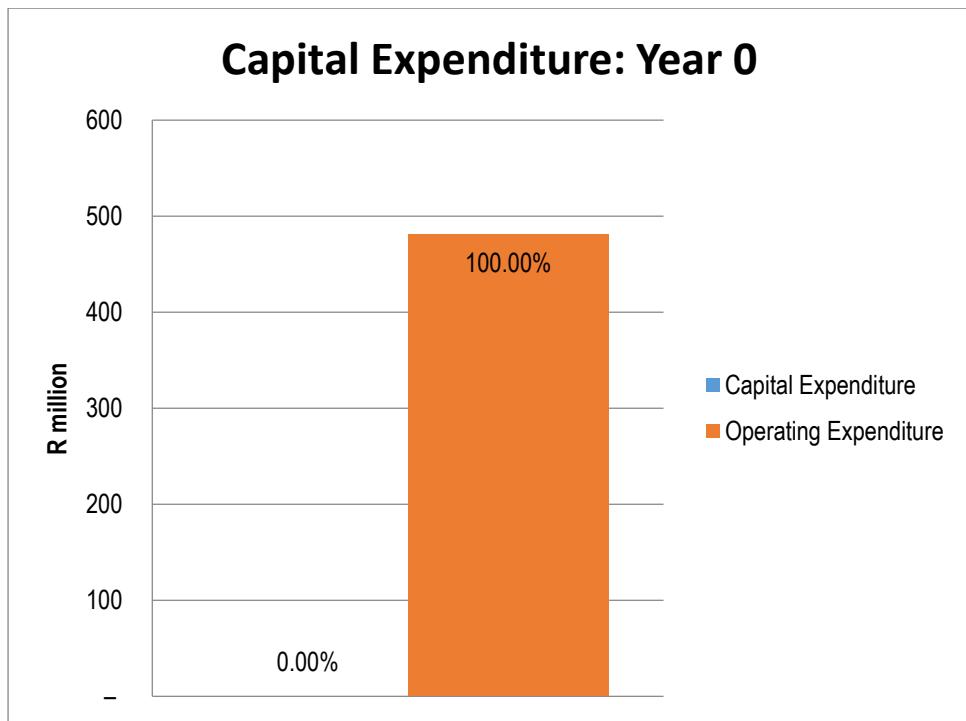
Capital Charges to Operating Expenditure ratio is calculated by dividing the sum of capital interest and principle paid by the total operating expenditure.

Data used from MBRR SA8

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

5.5 CAPITAL EXPENDITURE

5.5.1



Use table below to populate the info for the graph

	R million	Original Budget	Adjustment Budget	Un-audited Full Year Total	Original Budget variance	Adjusted Budget Variance
Capital Expenditure	67,361		69	133	-97.1%	-91.9%
		-	-	133		
Operating Expenditure		456	481	987	-116.3%	-105.1%
		456	481	987	-116.3%	-105.1%
Total expenditure		456	481	1,119	-145.4%	-132.7%
Water and sanitation		-	-	70		
Electricity		210	225	48	77.3%	78.8%
Housing		8	7	5	41.2%	29.7%
Roads, Pavements, Bridges and storm water		30	29	14	55.0%	52.2%
Other		208	221	6	97.3%	97.5%
		456	481	133	70.9%	72.4%
External Loans				31		
Internal contributions				34		
Grants and subsidies				76		
Other		-	-			

External Loans					
Original Budget	Adjustment Budget	Un-audited Full Year Total	Original Budget variance	Adjusted Budget Variance	
Grants and subsidies		162			
Investments Redeemed		48			
Statutory Receipts (including VAT)		88			
Other Receipts		858			
Salaries, wages and allowances		311			
Cash and creditor payments		532			
Capital payments		141			
Investments made		43			
External loans repaid		64			
Statutory Payments (including VAT)		92			
Other payments		1			
Property rates	75	76	74	1.1%	1.7%
Service charges	210	209	208	0.7%	0.6%
Other own revenue	172	196	202	-18.0%	-3.4%
	456			-6.3%	-0.8%

		481	485		
Employee related costs	133	131	119	10.8%	9.3%
Provision for working capital	–	–	–		
Repairs and maintenance	1	13	8	-565.7%	40.8%
Bulk purchases	150	165	147	2.1%	11.0%
Other expenditure	172	172	74	56.7%	56.7%
	456	481	348	23.7%	27.7%
Service charges: Electricity	179	179	175	2.4%	2.4%
Grants & subsidies: Electricity	8	8	8	-2.1%	-2.1%
Other revenue: Electricity	0	0	1	-49.9%	-49.9%
	187	187	183	2.1%	2.1%
Employee related costs: Electricity	9	9	9	0.9%	-0.4%
Provision for working capital: Electricity	–	–	–		
Repairs and maintenance: Electricity	3	3	3	-0.6%	8.7%
Bulk purchases: Electricity	150	165	147	2.1%	11.0%
Other expenditure: Electricity	63	42	4	93.8%	90.7%
	225	219	163	27.6%	25.8%
Service charges: Water	–	–	–		
Grants & subsidies: Water	–	–	–		
Other revenue: Water	–	–	–		
			180		

Employee related costs: Water	-	-	-	-	
Provision for working capital: Water	-	-	-	-	
Repairs and maintenance: Water	-	-	-	-	
Bulk purchases: Water	-	-	-	-	
Other expenditure: Water	-	-	-	-	

5.6 SOURCES OF FINANCE

Capital Expenditure - Funding Sources: Year -1 to Year 0						
Details	Year -1	Year 0				
		Actual	Original Budget (OB)	Adjustment Budget	Actual	Adjustment to OB Variance (%)
Source of finance						
External loans					#DIV/0!	#DIV/0!
Public contributions and donations					#DIV/0!	#DIV/0!
Grants and subsidies		129,070	130,763	120,264	1.31%	-6.82%
Other		327,143	350,168	364,658	7.04%	11.47%
Total		0	456,213	480,931	#DIV/0!	#DIV/0!
Percentage of finance						
External loans		0.0%	0.0%	0.0%	#DIV/0!	#DIV/0!

	Public contributions and donations		0.0%	0.0%	0.0%	#DIV/0!	#DIV/0!
	Grants and subsidies		28.3%	27.2%	24.8%	#DIV/0!	#DIV/0!
	Other		71.7%	72.8%	75.2%	#DIV/0!	#DIV/0!
Capital expenditure							
	Water and sanitation		0	0	0	#DIV/0!	#DIV/0!
	Electricity					#DIV/0!	#DIV/0!
	Housing					#DIV/0!	#DIV/0!
	Roads and storm water					#DIV/0!	#DIV/0!
	Other					#DIV/0!	#DIV/0!
Total		0	0	0	0	#DIV/0!	#DIV/0!
<i>Percentage of expenditure</i>							
	Water and sanitation	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
	Electricity	#DIV/0!	0.0%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
	Housing	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
	Roads and storm water	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
	Other	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS



Municipal
Infrastructure
Grant

MUNICIPAL INFRASTRUCTURE GRANT MONTHLY AND QUARTERLY REPORTING TEMPLATE

MUNICIPALITY:

Lukhanyo Municipality

MIG Form ID	SAF / Pro Project Registration Number (as on the registration letter)	Project location: Ward No and Village Name (MIG1 & 2)	Project title	MIG Category (R/P or E)	Project Type (works, construction etc)	Project Status (Not implemented, Required, Design & Tenders, Contractor appointed, Construction <10%, 10-50%, 50-75%, 75-100%, completed, rejected)	Approved MIG Funds (ZAR)(R)
Ward 1			Ward 1 or PMG	Ward 1 - 2.2	Ward 1 - 2.4	As per IP	
N/A	N/A	N/A	PMU/FEES	PMU	N/A	N/A	R 1,675,500.00
200088 EC0912168	All Wards	Upgrading of Lukhanyo Gravel Roads and Stormwater Phase 2	16, 18, 1, 4, 1, 18, 6, 18	R	Roads and Stormwater	Construction: 62% Complete	R 5,791,482.00
182121 LEC090910NP15	Lukhanyo Community Lighting, Phase 2			P	Community Lighting	Construction: 25%	R -
207284 EC2014115	1	Community Hall in Ward 1		P	Community Facilities	On Hold	R -
230884 EC2012193	8	Community Hall in Ward 8		P	Community Facilities	construction stage 100% complete.	R 950,100.00
230888 EC2012194	4	The Construction of a Community Hall in Ward 4		P	Community Facilities	Construction: 88% Complete	R 1,337,293.00
215411 EC2012187	13	Construction of Community Hall in Ward 13		P	Community Facilities	complete. Waiting for internet connection for	R 2,848,971.63
259893 EC2012127	4	Rehabilitation of Entekene Stadium Athlone Block		P	Community Services	Complete, awaiting internet.	R -
218888 EC2013266	3	Construction of shearing shed in Maboneng		E	LED	Construction 80%	R 35,863.88
239888 EC2014120	4	Community Hall in Ward 7		P	Community Facilities	Construction: 80%	R 4,000,000.00
219157 EC2014007	28	Lukhanyo LMT Inter Model Transport Facility and Causeway		R	Roads and Stormwater	Construction: 62% Complete	R 8,000,000.00
218880 EC2013986	2	Ringe Cemetery (Planning Project)		P	Cemeteries	Site and Geotech	R -
229829 EC2013987	27	Lewington Cemetery		P	Cemeteries	Tendering stage	R 1,621,426.12
228884 EC2012198	1 & 2	Construction of Ringe Sports-grounds Phase		P	Sport Facilities	Planning, Site Selection, Geotech completed	R 8,373,887.17
230882 EC201598	1 & 2	Construction of Ringe Sports-grounds Phase	5,8,10,11,12,13,14,	P	Sport Facilities	Construction: 80% Complete	R 3,020,000.00
259840 EC2012167	18	Rehabilitation and Extension of the Saini Stadium Athlone Site		P	Community Facilities	Complete, awaiting internet.	R 2,052,498.30
		TOTAL					R 37,891,000.00

SIGNED BY CHIEF FINANCIAL OFFICER (Or delegated person, include letter of delegation)

NAME: _____
 SIGNATURE: _____
 DATE: _____

CONTACT DETAILS: _____

SIGNED BY MUNICIPAL MANAGER (Or delegated person, include letter of delegation)

NAME: _____
 SIGNATURE: _____
 DATE: _____

CONTACT DETAILS: _____

5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

5.9 CASH FLOW

Cash Flow Outcomes				
Description	Year -1	Current: Year 0		
	Audited Outcome	Original Budget	Adjusted Budget	Actual
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratepayers and other	239,147	262,331	279,572	255,578
Government - operating	159,568	128,899	130,764	130,764
Government - capital	33,241	40,591	40,591	40,591
Interest	34,624	8,200	10,533	10,960
Dividends	-	-	-	-
Payments				
Suppliers and employees	-408442757	(378,890)	(397,506)	(342,600)
Finance charges	354225	(124)	(212)	(194)
Transfers and Grants			-	(5,131)
NET CASH FROM/(USED) OPERATING ACTIVITIES	58,491	61,007	63,741	89,967
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				

Proceeds on disposal of PPE				
Decrease (Increase) in non-current debtors				
Decrease (increase) other non-current receivables				
Decrease (increase) in non-current investments	20,500	28,605		
Payments				
Capital assets	(61,091)	(69,196)	(55,301)	
NET CASH FROM/(USED) INVESTING ACTIVITIES	–	(40,591)	(40,592)	(55,301)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans				
Borrowing long term/refinancing				
Increase (decrease) in consumer deposits				
Payments				
Repayment of borrowing	(1,162)	(1,393)	(858)	
NET CASH FROM/(USED) FINANCING ACTIVITIES	–	(1,162)	(1,393)	(858)
NET INCREASE/ (DECREASE) IN CASH HELD	58,491	19,254	21,757	33,809
Cash/cash equivalents at the year begin:		148,352	184,511	184,511
Cash/cash equivalents at the year end:		167,606	206,268	218,320

Source: MBRRA7

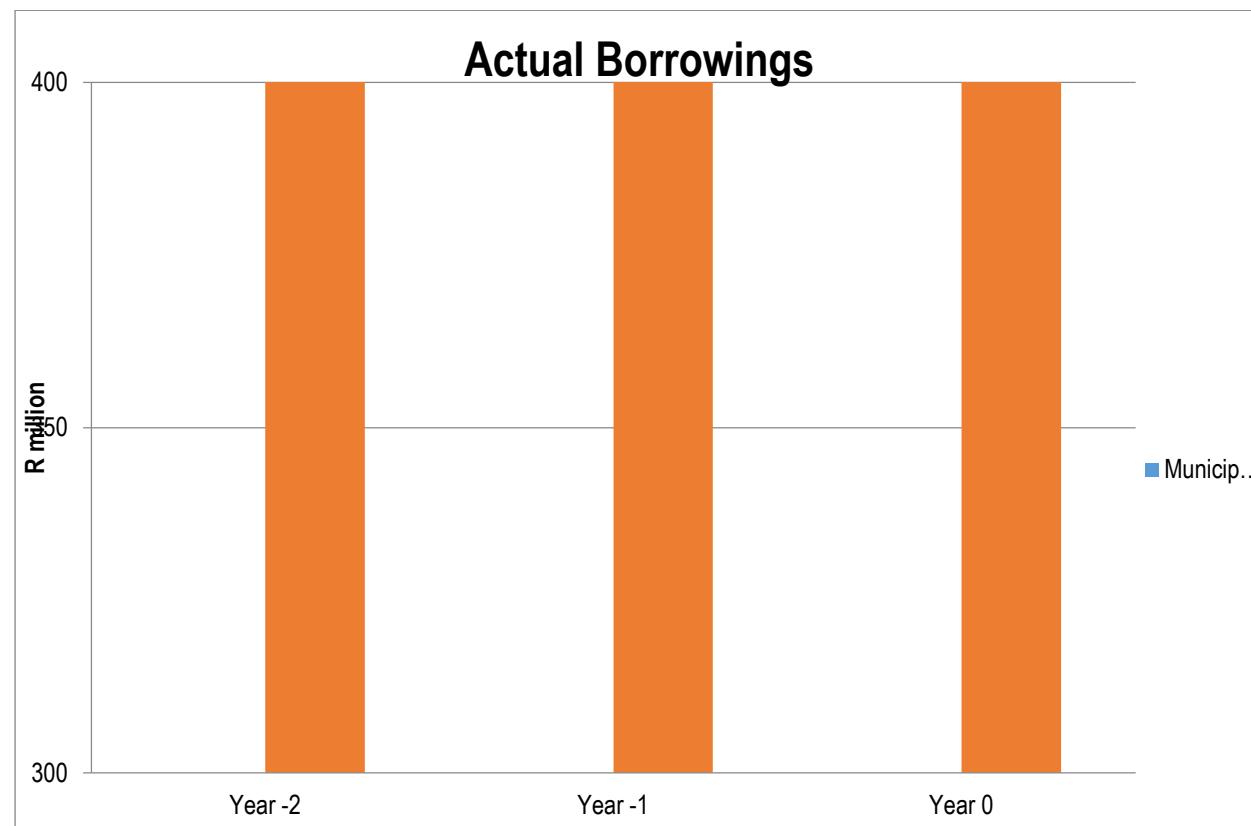
T 5.9.1

5.10 BORROWING AND INVESTMENTS

The Municipality does not have any loans and financial investments. A declaration by the Acting municipal manager and CFO is attached.

Actual Borrowings: Year -2 to Year 0			
Instrument	Year -2	Year -1	R' 000
Municipality			
Long-Term Loans (annuity/reducing balance)	3795339	3188681	1428287
Long-Term Loans (non-annuity)			
Local registered stock			
Instalment Credit			
Financial Leases			
PPP liabilities			
Finance Granted By Cap Equipment Supplier			
Marketable Bonds			
Non-Marketable Bonds			
Bankers Acceptances			
Financial derivatives			
Other Securities			
Municipality Total	3,795,339	3,188,681	1,428,287
Municipal Entities			
Long-Term Loans (annuity/reducing balance)			
Long-Term Loans (non-annuity)			
Local registered stock			
Instalment Credit			
Financial Leases			
PPP liabilities			
Finance Granted By Cap Equipment Supplier			

Marketable Bonds			
Non-Marketable Bonds			
Bankers Acceptances			
Financial derivatives			
Other Securities			
Entities Total	0	0	0
	<i>T 5.10.2</i>		



Municipal and Entity Investments			
Investment* type	R' 000		
	Year -2	Year -1	Year 0
Actual	Actual	Actual	
Municipality			
Securities - National Government			
Listed Corporate Bonds			
Deposits - Bank	94250000.00	111533964.00	119733964.00
Deposits - Public Investment Commissioners			
Deposits - Corporation for Public Deposits			
Bankers Acceptance Certificates			
Negotiable Certificates of Deposit - Banks			
Guaranteed Endowment Policies (sinking)			
Repurchase Agreements - Banks			
Municipal Bonds			
Other			
Municipality sub-total	94250000	111533964	119733964
Municipal Entities			
Securities - National Government			
Listed Corporate Bonds			
Deposits - Bank			
Deposits - Public Investment Commissioners			
Deposits - Corporation for Public Deposits			
Bankers Acceptance Certificates			
Negotiable Certificates of Deposit - Banks			
Guaranteed Endowment Policies (sinking)			
Repurchase Agreements - Banks			

Other			
Entities sub-total	0	0	0
Consolidated total:	94250000	111533964	119733964
	<i>T 5.10.4</i>		

5.11 PUBLIC PRIVATE PARTNERSHIPS

The Municipality does not have any formal Private Public Partnerships in place. A declaration by the Acting municipal manager and CFO is attached. Formal refers to contractual obligations apart from ingenious co-operation in the day to day running of the institution./

COMPONENT D: OTHER FINANCIAL MATTERS

5.12 SUPPLY CHAIN MANAGEMENT

5.13 GRAP COMPLIANCE 182

CHAPTER 6 – AUDITOR GENERAL AUDIT FINDINGS

COMPONENT A: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS

6.1 AUDITOR GENERAL REPORTS Year -1 (Previous year)

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL ON THE LUKHANJI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Lukhanji Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison with budget for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the following matters:
 - The municipality did not review the useful lives, residual values and deemed costs of property, plant and equipment in accordance with GRAP 17: *Property, plant and equipment*

equipment and directive 7: The application of deemed costs on the adoption of standards of GRAP.

- Assets could not be physically located during the audit due to the lack of information in the municipality's asset register.
- Details for land and buildings did not correspond to the register and I could not confirm that all municipal properties were included.

5. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments were required to property, plant and equipment of R682,5 million (2013: R639,7 million) as disclosed in the statement of financial position and note 11 or depreciation and amortisation disclosed in the statement of financial performance.
6. The entity did not account for its property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment* in the following instances:
 - The value of land and buildings did not correspond to the valuation certificates.
 - Management did not record all assets in the register and financial statements.
 - The municipality did not include a reconciliation for property, plant and equipment in the notes to the financial statements.
7. Consequently, property, plant and equipment as disclosed in the statement of financial position and note 11 is understated by R44,9 million (2013: R2,7 million), accumulated surplus as disclosed in the statement of financial position is understated by R17,1 million (2013: R2,7 million), expenditure as disclosed in the statement of financial performance is overstated by R33,4 million, depreciation and loss on disposal as disclosed in the statement of financial performance are understated by R1,7 million and R3,9 million respectively.

Investment property

8. I was unable to obtain sufficient appropriate audit evidence for investment property due to the following matters:
 - Properties could not be physically located as the municipality did not prepare a register that was fully compliant with the requirements of GRAP 16: *Investment property*.
 - Ownership of properties included on the register could not be confirmed.
 - Details for properties did not correspond to the register and I could not confirm that all municipal properties were included.
9. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments were required to investment property of R153,5 million (2013: R125,1 million) as disclosed in the statement of financial position and note 12 to the financial statements.
10. The municipality did not adequately assess the fair value of all its land and buildings at each reporting date in accordance with GRAP 16: *Investment property* and differences

were identified between the valuation certificates and the recorded values.

11. Consequently, investment property as disclosed in the statement of financial position and note 12, the fair value adjustment as disclosed in the statement of financial performance and accumulated surplus as disclosed in the statement of financial position are overstated by R38,4 million (2013: R9,4 million), R28,9 million (2013: R9,4 million) and R9,5 million respectively.

Value-added tax receivable

12. I was unable to obtain sufficient appropriate audit evidence for the value-added tax (VAT) receivable due to the following matters:
 - Evidence was not available to clear reconciling differences between the South African Revenue Service (SARS) records and municipal records.
 - Evidence was not available for journal adjustments processed.
13. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to VAT of R27,1 million (2013: R14,2 million) as disclosed in note 10 to the financial statements were necessary.
14. The municipality did not adequately account for output VAT transactions. Consequently, the VAT receivable as disclosed in the statement of financial position and note 10 to the financial statements is understated and expenditure as disclosed in the statement of financial performance is overstated by R5,5 million.

Accumulated surplus

15. Sufficient appropriate audit evidence was not obtained to confirm adjustments made to the opening balance in the statement of changes in net assets for all errors identified in the previous and other financial years. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments to the accumulated surplus of R908,9 million (2013: R864,2 million) as disclosed in the statement of changes in net assets and statement of financial position were necessary.

Prior period error note

16. Sufficient appropriate audit evidence was not submitted to support the correction of errors as disclosed in note 41 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the correction of errors disclosure note.
17. *The municipality* did not disclose the nature of the correction of error for each correction in accordance with GRAP 3: *Accounting policies, changes in accounting estimates and errors in note 41 to the financial statements*. Consequently, the financial statements have not been prepared in accordance with all the requirements of the standard.

Debt impairment

18. I was unable to obtain sufficient appropriate audit evidence for the debt impairment due to the following matters:
 - Management processed system journals which could not be supported with a detailed listing of accounts impaired.
 - Management could not provide a detailed basis for the calculation of debt impairment journals.
19. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments relating to debt impairment of R77,4 million (2013: R74,1 million) as disclosed in the statement of financial performance and note 32 to the financial statements were necessary.
20. The municipality did not reconcile the listing of bad debts to the financial statements and, consequently, debt impairment as disclosed in the statement of financial performance and note 32 is overstated and receivables from exchange transactions as disclosed in the statement of financial position are understated by R5,6 million.

Unauthorised expenditure

21. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure as management does not have appropriate systems to identify this expenditure.
22. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments to unauthorised expenditure of R2,9 million (2013: R60,2 million) as disclosed in note 46.1 to the financial statements were necessary.
23. Management does not have appropriate systems to identify this expenditure and, consequently, R27,1 million of unauthorised expenditure that was detected during the audit process was not disclosed in note 46.1.

Irregular expenditure

24. I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure as management does not have appropriate systems to identify this expenditure.
25. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure of R41,5 million (2013: R40,6 million) as disclosed in note 46.3 were necessary.
26. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i). Consequently, the irregular expenditure disclosed in note 46.3 to the financial statements is understated in respect of amounts incurred during the year that were identified during the audit process of R57 million.

Cash flow statement

27. I was unable to obtain sufficient appropriate audit evidence for the cash flow statement for the current and corresponding amounts due to a lack of sufficient appropriate audit evidence, including management workings for loans repaid, new loans raised and cash generated by operations as disclosed in the cash flow statement and note 42. GRAP 2: *Cash flow statements* requires the presentation of a cash flow statement summarising the entity's operating, investing and financing activities. I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash flow statement.

Discontinued operations

28. I was unable to obtain sufficient appropriate audit evidence for the disclosure of discontinued operations. The municipality transferred its water operations to the Chris Hani District Municipality after the financial year-end. GRAP 100: *Non-current assets held for sale* requires that the information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposal of non-current assets (or disposal groups) should be presented and disclosed. No disclosure of this has been made in note 21 to the financial statements. Adequate records to substantiate the affected revenue, expenditure, assets and liabilities were not available to determine the amounts to be disclosed. I was unable to confirm the amounts to be disclosed by alternative means. Consequently, I was unable to determine the full extent of the understatement.

Material losses

29. I was unable to obtain sufficient appropriate audit evidence relating to material losses for the current and corresponding amounts due to the following matters:

- Management did not have appropriate systems to collect the information required for the disclosure as required by section 125(2)(d)(i) of the MFMA.
- Management did not prepare a reconciliation between the financial system and other data.

30. I was unable to confirm this disclosure by alternative means. Consequently, I was unable to determine whether any adjustments relating to material losses as disclosed in note 46.4 to the financial statements were necessary.

Receivables from exchange transactions

31. I was unable to obtain sufficient appropriate audit evidence relating to receivables from exchange transactions due to the following matters:

- Information to support debtor balances was not available.
- The impairment allowance was not supported by a detailed listing of impaired receivables.

32. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any further adjustments relating to receivables

from exchange transactions of R20 million (2013: R15,2 million) as disclosed in the statement of financial position and note 17 to the financial statements were necessary.

33. System errors led to the misclassification between the receivables from exchange transactions and non-exchange transactions and consequently receivables from exchange transactions as disclosed in the statement of financial position and note 17 are overstated by R7,9 million (2013: R24,9 million understated), receivables from non-exchange transactions as disclosed in the statement of financial position and note 18 are understated by R7,6 million and accumulated surplus as disclosed in the statement of financial position is overstated by R301 132 (2013: R24,9 million understated).

Employee-related costs

34. I was unable to obtain sufficient appropriate audit evidence relating to employee costs due to the inadequacy of the municipality's employee record management system.

35. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments to employee-related costs amounting to R139,2 million (2013: R104,9 million) disclosed in the statement of financial performance and note 30 to the financial statements were necessary.

36. The municipality made calculation errors on wages and consequently employee costs as disclosed in the statement of financial performance and note 30 is overstated and receivables from exchange transactions as disclosed in the statement of financial position are understated by R2,8 million.

Payables from exchange transactions

37. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the following matters:

- The municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid for at year-end.
- The municipality did not maintain adequate leave records.

38. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments to payables from exchange transactions of R62,5 million (2013: R37,6 million) as disclosed in the statement of financial position and note 8 to the financial statements were necessary.

39. The municipality did not include all outstanding amounts meeting the definition of a liability as per GRAP 1: *Presentation of financial statements* in the financial statements. Consequently, trade payables from exchange transactions as disclosed in the statement of financial position and note 8 to the financial statements is understated by R15,9 million and expenditure as disclosed in the statement of financial performance is understated by the same amount. In addition, the municipality did not process all leave transactions during the year and consequently staff leave as disclosed in note 8 to the financial statements and employee costs as disclosed in the statement of financial performance is overstated by R11,1 million (2013: R8,8 million).

Receivables from non-exchange transactions

40. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the following matters:

- Information to support debtor balances was not available.
- The impairment allowance was not supported by a detailed listing of impaired receivables.

41. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions of R54,1 million (2013: R26,7 million) as disclosed in the statement of financial position and note 18 to the financial statements were necessary.

42. The municipality did not account for all of its revenue and consequently the corresponding amounts for receivables from non-exchange transactions as disclosed in the statement of financial position, revenue from non-exchange transactions as disclosed in the statement of financial performance and payables from exchange transactions as disclosed in the statement of financial position are understated by R46,5 million, R41,8 million and R4,7 million, respectively.

General expenditure

43. I was unable to obtain sufficient appropriate audit evidence for general expenditure such as orders, requisitions, agreements and explanations. I was unable to confirm this expenditure by an alternative means. Consequently, I was unable to determine whether any adjustments to general expenditure of R97,5 million (2013: R75,3 million) as disclosed in the statement of financial performance and note 40 to the financial statements were necessary.

44. The amount of R46,2 million (2013: R30 million) reflected for delegated management which is part of general expenditure in note 40 is overstated by R42,5 million (2013: R25,7 million), bulk purchases in the statement of financial performance are understated by R42,5 million (2013: R25,2 million) and revenue from exchange transactions corresponding amount as disclosed in the statement of financial performance is overstated by R558 065. Furthermore, general expenditure as disclosed in the statement of financial performance is overstated and receivables from exchange transactions as disclosed in the statement of financial position is understated by R3,3 million.

Statement of comparison of budgets to actual amounts

45. The municipality did not present the statement of comparison of budget and actual amounts in accordance with GRAP 24: *Presentation of budget information in financial statements, as follows:*

- *The actual amounts per the statement of comparison of budget do not agree to the amounts in the statement of financial position, performance and cash flow statement, which in addition has resulted in inaccurate variances being reported.*
- *The budget and adjusted budget amounts per the statement of comparison of budget to actual do not agree to the approved budget and adjusted budget.*

- *The statement of comparison of budget and actual amounts does not include explanations for all variances or adjustments constituting more than material differences as stated in the accounting policy.* Consequently, the financial statements have not been prepared in accordance with all the requirements of the standard.

Financial instruments

46. Financial instrument disclosure required by GRAP 104: *Financial instruments* have not been included in note 50 to the financial statements. Due to the lack of systems I was unable to confirm the disclosure by alternative means. It was not practical to determine the full extent of the understatement. Consequently, I was unable to determine whether any further adjustments were necessary to the financial instruments disclosure note.

Revenue from exchange transactions uncorrected corresponding figure

47. I was unable to obtain sufficient appropriate audit evidence for the corresponding amount for revenue from exchange transactions due to the following matters:

- The *underlying* accounting records for revenue transactions as recorded in the accounting system could not be reconciled to the general ledger and financial statements.
- Management could not provide audit evidence to substantiate these differences.

48. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any further adjustments relating to the corresponding amount for revenue from exchange transactions of R270,9 million as disclosed in the statement of financial performance and notes 25, 26, 27, 28 and 29 to the financial statements were necessary. My opinion has been modified because of the possible effects of the unresolved matter on the comparability of the current year's figures and the corresponding figures.

Revenue from non-exchange transactions uncorrected corresponding figure

49. I was unable to obtain sufficient appropriate audit evidence for the corresponding amount for revenue from exchange transactions due to the following matters:

- The underlying accounting records for property rates, government grants and subsidies as recorded in the accounting system could not be reconciled to the general ledger and financial statements.
- Management could not provide audit evidence to substantiate these differences.

50. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any further adjustments relating to the corresponding amount for revenue from non-exchange transactions of R240,8 million as disclosed in the statement of financial performance and notes 22, 23, and 24 to the financial statements were necessary. My opinion has been modified because of the possible effects of the unresolved matter on the comparability of the current year's figures and the corresponding figures.

Cash and cash equivalents uncorrected corresponding figure

51. I was unable to obtain sufficient appropriate audit evidence for the corresponding amount for cash and cash equivalents due to the following matters:
 - Evidence to clear reconciling items and errors found in the prior financial year was not available.
 - Not all bank accounts were reconciled by the municipality.
52. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments to cash and cash equivalents of R174,3 million for the corresponding figures as disclosed in note 20 to the financial statements were necessary. My opinion has been modified because of the possible effects of the unresolved matter on the comparability of the current year's figures and the corresponding figures.

Aggregation of immaterial uncorrected misstatements in corresponding figures

53. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the corresponding amounts in the statement of financial performance and disclosure in the financial statements:
 - Contingencies as disclosed in the corresponding amount in note 54 to the financial statements are understated by R4,9 million.
54. In addition, I was unable to obtain sufficient appropriate audit evidence due to individually immaterial amounts that were unsubstantiated and I was unable to determine or confirm by alternative means whether adjustments were required:
 - Repairs and maintenance disclosed in the corresponding amount in note 35 to the financial statements and the statement of financial performance.
 - Contracted services expenditure disclosed in the corresponding amount in note 38 to the financial statements and the statement of financial performance.
 - Bulk purchases disclosed in the corresponding amount in note 37 to the financial statements and the statement of financial performance.
 - Commitments disclosed in the corresponding amount in note 48 to the financial statements.
55. My opinion has been modified because of the possible effects of the unresolved matters on the comparability of the current year's figures and the corresponding figures.

Disclaimer of opinion

56. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

57. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

58. As disclosed in the statement of changes in net assets, the corresponding figures for 30 June 2013 have been restated as a result of errors only corrected during the year ended 30 June 2014 that existed in the financial statements at, and for the year ended 30 June 2013.

Material impairments

59. Disclosed in note 32 to the financial statements is an amount R77,4 million (2013: R74,1 million) for debt that has been impaired as a result of non-payment of consumer debtor accounts.

Additional matters

60. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

61. The supplementary information set out on pages XX to XX did not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

Unaudited disclosure notes

62. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Withdrawal from the audit engagement

63. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the ISAs.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

64. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

65. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Key performance area: Basic service and infrastructure development (on pages x to x)
 - Key performance area: Local economic development (on pages x to x).
66. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
67. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
68. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
69. The material findings in respect of the selected key performance areas are as follows:

Basic services and infrastructure development

Usefulness of reported performance information

70. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 57% of all planned objectives specified in the integrated development plan (IDP) for the year under review. This was due to a lack of information systems recording and documenting actual achievements against targets and a lack of review of the completeness of reporting documents by management and the internal audit unit.
71. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the development priorities, objectives, indicators and targets in the annual performance report without following the process as prescribed in section 28 of the MFMA and or without adoption by the municipal council. This was as a result of management not developing appropriate measures to monitor compliance with applicable law and

regulations. Management has also not created and implemented action plans that address deficiencies identified by external auditors.

72. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance and must be measurable, and the period or deadline for delivery of targets must be specified.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. Performance indicators must also be verifiable. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.

73. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 46% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year IDP. This was because proper performance planning and management practices had not been implemented to provide for the development of performance indicators and targets included in the IDP.

Reliability of reported performance information

74. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matters

75. I draw attention to the following matters. My conclusion is not modified in respect of these matters:

Achievement of planned targets

76. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of conclusions expressed on usefulness and reliability of the reported performance information in paragraphs xx of this report.

Unaudited supplementary information

77. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not

audited these schedules and, accordingly, I do not express a conclusion thereon.

Local economic development

Usefulness of reported performance information

78. Section 41(c) of the MSA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 58% of all planned objectives, 100% of all planned indicators and 83% of all planned targets specified in the IDP for the year under review. This was due to a lack of information systems recording and documenting actual achievements against targets and a lack of review of the completeness of reporting documents by management and the internal audit unit.
79. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the development objectives, indicators and targets in the annual performance report without following the process as prescribed in section 28 of the MFMA and or without adoption by the municipal council. This was as a result of management not developing appropriate measures to monitor compliance with applicable law and regulations. Management has also not created and implemented action plans that address deficiencies identified by external auditors.
80. The FMPPI requires the following:
 - Performance targets must be specific in clearly identifying the nature and required level of performance and must be measurable, and the period or deadline for delivery of targets must be specified.
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. Performance indicators must also be verifiable. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.
81. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of the indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation for why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Reliability of reported performance information

82. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of

actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matters

83. I draw attention to the following matters. My conclusion is not modified in respect of these matters:

Achievement of planned targets

84. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of conclusions expressed on usefulness and reliability of the reported performance information in paragraphs xx of this report.

Unaudited supplementary information

85. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

Compliance with legislation

86. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic and performance management

87. Sufficient appropriate audit evidence could not be obtained that the local community was consulted by means of a municipal-wide structure for community participation or through a forum that enhances community participation in drafting and implementing the IDP, as required by section 28 of the MSA and municipal planning and performance management regulation 15(1)(a)(i).
88. The adopted IDP did not reflect and identify a financial plan and the key performance indicators and targets, as required by sections 26 and 41 of the MSA, as well as municipal planning and performance management regulation 2(1)(c).
89. Sufficient appropriate audit evidence could not be obtained that the local community was afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulations 9, 13(1), 13(4)(c) and 15(3).
90. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the

MFMA and municipal planning and performance management regulation 6.

91. The IDP was not annually reviewed based on the assessment of its performance measurements and changing circumstances, as required by section 34 of the MSA and municipal planning and performance management regulations 3 and 11.
92. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
93. The performance management system was not in line with the priorities, objectives, indicators and targets contained in the IDP and did not clarify the roles and responsibilities of each role player. Furthermore, it did not determine the frequency of reporting and the lines of accountability and relate to the employee's performance management processes. It also did not link to the integrated development planning processes, as required by section 38(a) of the MSA and municipal planning and performance management regulation 7(2)(c), (e), (f) and (g).
94. The performance management system did not provide for the monitoring, measuring and review of performance at least once per year, as required by section 41 of the MSA. It also did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
95. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
96. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulations 1 and 9(1)(a).
97. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1) and 12(2)(e).
98. Sufficient appropriate audit evidence could not be obtained that revisions of the service delivery and budget implementation plan were approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
99. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
100. The annual performance report for the year under review did not include the performance of the municipality and a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(a), (b) and (c) of the MSA.
101. Annual performance agreements for the municipal manager and all senior managers linked to the measurable performance objectives approved with the budget and to the

service delivery budget implementation plan were not signed as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

102. The performance management system and related controls were not in place as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed, including determining the roles of the different role players, as required by section 38 of the MSA and municipal planning and performance management regulation 7.

Annual financial statements, performance and annual reports

103. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
104. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
105. An oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.
106. The council's oversight report on the 2013-14 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

Budget

107. Expenditure was not incurred in accordance with the approved budget or was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Audit committee

108. Sufficient appropriate audit evidence could not be obtained that the audit committee advised the council and accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management, performance evaluation, the adequacy, the reliability and accuracy of financial reporting and information and compliance with legislation as required by section 166(2)(a), (iv) and (vii) of the MFMA. Sufficient appropriate audit evidence could not be obtained that it responded to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.
109. Sufficient appropriate audit evidence could not be obtained that the audit committee reviewed the municipality's performance management system and made recommendations to the council, as required by municipal planning and performance management regulation 14(4)(a)(ii). It also did not review all the quarterly internal audit reports on performance measurement, as required by municipal planning and performance management regulation 14(4)(a)(i). Furthermore, sufficient appropriate

audit evidence could not be obtained that it submitted, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii). It was also not constituted in the manner required by section 166(4)(a) of the MFMA as the committee did not consist of at least three persons with appropriate experience. Sufficient appropriate audit evidence could not be obtained that it met at least four times a year, as required by section 166(4)(b) of the MFMA.

Internal audit

110. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review. It also did not report to the audit committee on the implementation of the internal audit plan. Furthermore, it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
111. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

112. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
113. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
114. An adequate management, accounting and information system which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made was not in place, as required by section 65(2)(b) of the MFMA.
115. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

116. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
117. An effective system of internal control for assets (including an appropriate asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Liability management

118. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
119. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

120. A credit control and debt-collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
121. An adequate management, accounting and information system which accounts for debtors was not in place, as required by section 64(2)(e) of the MFMA.
122. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

Procurement and contract management

123. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
124. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were not drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
125. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
126. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
127. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the *Preferential procurement regulations*.
128. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
129. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
130. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
131. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.

132. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders who scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.
133. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders who had submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
134. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act, 2000 (Act No. 38, 2000) (CIDB) and CIDB regulation 18.
135. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
136. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
137. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from providers whose tax matters had been declared by SARS to be in order, as required by SCM regulation 43.

Human resource management

138. An acting municipal manager and chief financial officer were appointed for a period of more than three months without the approval by the member of the executive council (MEC) for local government, in contravention of sections 54A(2A) and 56(1)(c) of the MSA.
139. The competencies of financial and supply chain management officials were not assessed in a timely manner to identify and address gaps in competency levels, as required by the regulation 13 of the *Municipal regulations on minimum competency levels*.
140. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by the regulation 14(2)(a) of the *Regulations on minimum competency levels*.
141. The accounting officer, chief financial officer, senior managers and finance officials at middle management did not meet any of the prescribed competency areas as required by section 83 of the MFMA and regulations 2 to 9 of the *Municipal regulations on minimum competency levels*.
142. The municipality did not develop and adopt appropriate systems, policies and procedures to monitor, measure and evaluate performance of staff, in contravention of section 67(d) of the MSA.

143. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

Conditional grants

144. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant (MIG), Municipal Systems Improvement Grant (MSIG) and Local Government Financial Management Grant (FMG) allocation, as required by section 12(5) of DoRA.

145. The MSIG allocation was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.

Consequence management

146. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

147. The accounting officer and council did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6) of the MFMA.

148. Allegations of fraud, corruption, favouritism, unfair or irregular practice and failure to comply with the SCM system made against officials and role players were not investigated by the accounting officer, as required by municipal SCM regulation 38(1)(b).

149. Allegations of theft, fraud, extortion, forgery and uttering a forged document which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004) (PCCAA).

150. The accounting officer did not always report cases of alleged criminal conduct to the South African Police Service, as required by municipal SCM regulation 28(1)(b).

151. Allegations of financial misconduct against senior managers were not always tabled before council, as required by regulation 5(2) of the *Disciplinary regulations for senior managers*.

152. Cases of financial misconduct by senior managers, which constituted a crime, were not always reported to the South African Police Service, as required by section 62(1)(e) of the MFMA.

153. Investigations were not conducted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

154. Disciplinary proceedings were not instituted against officials of the municipality when investigations warranted such a step, as required by section 171(4)(b) of the MFMA.

155. Cases of financial misconduct which constituted a crime were not always reported to the South African Police Service, as required by section 62(1)(e) of the MFMA.

Internal control

156. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion and the findings on the performance report and compliance with legislation included in this report.

Leadership

157. Leadership did not fulfil its oversight responsibilities with regard to the implementation and monitoring of internal controls and compliance with laws and regulations and did not insist on daily disciplines to ensure sound financial and performance management and compliance with laws and regulations. No consequence management was applied for past transgressions and poor performance of employees.
158. Sufficient attention was not given to the revision of the organogram and filling of critical vacancies to ensure sufficient capacity to address the ongoing control deficiencies. This impacted negatively on the effectiveness of leadership and undermined accountability.
159. The revision of policies, including the IT governance framework, has not been prioritised, which has resulted in a lack of improvement in the overall control assessment.
160. Leadership did not implement the action plan in time to have a meaningful impact on the control environment. It was also not monitored by the oversight bodies to ensure that action was taken.
161. There has been a slow response to the messages of the auditor-general and as a result there are numerous repeat findings that were not effectively dealt with by management during the year.

Financial and performance management

162. The lack of record management and daily financial disciplines continues to have a negative effect on the financial administration of the municipality. The municipality did not have adequate skills and competencies and relied on consultants to prepare reconciliations and registers. A number of these were only prepared after the financial year-end which did not allow sufficient time for adequate reviews to take place.
163. Material misstatements across all cycles and components signified a lack of review of transactions and balances at all managerial levels within the municipality, including the inadequacy of detection systems to alert management of control failures.
164. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information. This was further evidenced by the lack of reconciliations between IT system-generated reports and amounts disclosed in the financial statements.
165. Inadequate record management practices and inadequate monitoring controls resulted in significant deficiencies in the general control environment. Information submitted for audit did not support the underlying records reported in the performance report. The municipality did not institute regular processes of collecting, collating and reporting on

credible information which assisted with decision-making and the direction of the municipality's performance objectives. As a result, sufficient appropriate audit evidence was not obtained for a number of significant components reported in the financial statements and performance report.

Governance

166. Risk management activities were not sufficient as evidenced by the large number of repeat findings. The municipality also lacked effective risk monitoring processes to ensure that risks identified are appropriately managed.
167. The internal audit function lacked sufficient capacity to function effectively and produce reports during the financial year. This hampered the ability of the audit committee to fulfil their oversight function and other compliance responsibilities in terms of the MFMA.

East London

28 November 2014

COMPONENT B: AUDITOR-GENERAL OPINION YEAR 0 (CURRENT YEAR)

6.2 AUDITOR GENERAL REPORT YEAR 0



Auditing to build public confidence

Report of the auditor-general to the Eastern Cape provincial legislature and the council on Lukhanji Local Municipality Report on the financial statements

Introduction

1. I have audited the financial statements of the Lukhanji Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally

Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not account for its PPE in accordance with GRAP 17, Property, plant and equipment in the following circumstances:
 - The municipality did not record all of its assets in the fixed asset register and financial statements;
 - The municipality made errors in the calculation of depreciation and work-in-progress.
7. Consequently, PPE as disclosed in note 10 is understated by R109 million (2014: R109,6 million), depreciation as disclosed on the statement of financial performance is overstated by R2,4 million (2014: R1,6 million) and accumulated surplus as disclosed in the statement of financial position is understated by R106,7 million (2014: R108 million).
8. In addition I was unable to obtain sufficient appropriate audit evidence for PPE as I was not provided with sufficient appropriate evidence for journals relating to PPE.
9. I was unable to confirm the amount of PPE by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant & equipment of R758,1 million as disclosed in note 10 to the financial statements.

Investment property

10. The municipality did not account for its investment properties in accordance with GRAP 16 Investment property the following circumstances

- Properties could not be physically located as the municipality did not prepare a register that was fully compliant with the requirements of GRAP;
- Ownership control of properties included on the register could not be confirmed;
- The municipality made errors in the calculation of the cost of properties;
- The municipality did not record all of its properties on the register;
- The register did not contain adequate details of buildings and improvements on the properties recorded.

11. Consequently, investment property as disclosed in note 9 is understated by R49,5 million (2014: R49,5 million) and accumulated surplus as disclosed in the statement of financial position is understated by R49,5 million (2014: R49,5 million). The municipality did not calculate depreciation on buildings included in investment property, in contravention of the accounting policy. As insufficient details were included on the register it is impracticable to determine the impact of the error on depreciation.

Irregular expenditure

12. Irregular expenditure of R166,8 million (2014: R107,8 million) is disclosed in note 53. The municipality's processes for the recording and recognition of irregular expenditure were insufficient as amounts either did not agree to supporting documentation or were not recorded. Consequently, irregular expenditure is understated by R10,4 million (2014: R16 million).

13. In addition I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure balance brought forward from the prior year and the prior year closing balance of irregular expenditure as disclosed at R107,8 million in note 53 as I was not provided with appropriate documentation to substantiate the amount disclosed. I was unable to confirm the amount of irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure of R166,8 million (2014: R107,8 million) as disclosed in note 53 to the financial statements.

Revenue from exchange transactions

14. The municipality did not account for revenue from exchange transactions in accordance with GRAP 9, Revenue from exchange transactions in the following circumstances:

- The municipality made errors in the calculation of meter readings for service charges;
- The municipality did not record interest transactions in the correct period;
- Calculation errors, including Value Added Tax (VAT) errors were made on recording of other income;

- Revenue was recognised that did not meet the recognition criteria.

15. Consequently, revenue from exchange transactions as disclosed in the statement of financial performance, is overstated by R31 million and receivables from exchange transactions is overstated by R12,3 million, expenditure is overstated by R17,7 million, employee costs is overstated by R360 681 and VAT is understated by R752 088.

16. In addition I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions because I was not provided with sufficient appropriate evidence for revenue transactions.

17. I was unable to confirm the amount of revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions of R252,9 million as disclosed in the statement of financial performance.

Discontinued operations

18. Disclosed in note 40 for discontinued operations, are receivables from exchange transactions of R15 million. The municipality did not account for these appropriately as:

- Appropriate records to support the debtor balance were not kept by the municipality;
- The municipality did not calculate the impairment related to these receivables correctly.

19. Consequently, receivables relating to discontinued operations as disclosed in note 40 is understated by R15,8 million.

Unauthorised expenditure

20. I was unable to obtain sufficient appropriate audit evidence for the opening balance and corresponding amount for unauthorised expenditure of R78,8 million as management does not have appropriate systems to identify this expenditure.

21. I was unable to obtain the required evidence through alternative means. Consequently, I was unable to determine whether any adjustments to corresponding amount for unauthorised expenditure of R2,9 million as disclosed in note 51 to the financial statements were necessary.

22. Management does not have appropriate systems to identify this expenditure and, consequently, R27,1 million (2014: R27,1 million) of unauthorised expenditure that was detected during the audit process was not disclosed in note 51.

Aggregation of immaterial uncorrected misstatements

23. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position, the statement of financial performance and the notes to the financial statements:

- The corresponding figure of employee costs reflected as R128,9 million was overstated by R4,8 million.

- The corresponding figure for revenue from non-exchange transactions reflected as R235,7 million was understated by R11,2 million.
- Receivables from exchange transactions reflected as R24,4 million (2014: R21,3 million) was understated by R3,8 million (2014: 12,5 million).
- VAT receivable reflected as R4,4 million was understated by R7,6 million.
- Accumulated surplus reflected as R1,1 billion was understated by R21,7 million.
- Receivables from non-exchange reflected as R38,1 million was understated by R5,7 million.

24. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- The corresponding figure of employee costs of R7,5 million as included in the disclosed balance of R128,9 million.
- The corresponding figure of revenue from non-exchange transactions of R1,4 million as included in the disclosed balance of R235,7 million.
- Receivables from exchange transactions of R648 000 (2014: R648 024) as included in the balance of R24,4 million (2014: R21,3 million).
- Unspent grant liability of R1,3 million (2014: R9,4 million) as included in the disclosed balance of R14,6 million (2014: R9,5 million).
- Accumulated surplus of R239 827 as included in the disclosed balance of R1,1 billion.

25. Consequently, I was unable to determine whether any further adjustment to these items was necessary.

Qualified opinion

26. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Lukhanji Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

27. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

28. As disclosed in the statement of changes in net assets and note 47, the corresponding figures for have been restated as a result of errors only corrected during the year ended 30 June 2015 that existed in the financial statements at, and for the year ended 30 June 2014.

Material impairments

29. As disclosed in note 4 and 5 to the financial statements, an amount of R222,7 million for receivables from exchange transactions and R75 million for receivables from non-exchange transactions (2014: R222,5 million and R92,5 million) has been impaired as a result of non-payment of consumer debtor accounts.

Additional matter

30. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

31. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

32. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

33. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:

- Development priority: basic services and infrastructure development on pages x to x
- Development priority: local economic development on pages x to x

34. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

35. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

36. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

37. The material findings in respect of the selected development priorities are as follows:

Basic services and infrastructure development

Usefulness of reported performance information

38. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 100% of all planned objectives specified in the integrated development plan (IDP) for the year under review. This was due to a lack of information systems recording and documenting actual achievements against targets and a lack of review of the completeness of reporting documents by management and the internal audit unit.
39. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the development priorities, objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and or without adoption by the municipal council. This was as a result of management not developing appropriate measures to monitor compliance with applicable law and regulations. Management has also not created and implemented action plans that address deficiencies identified by external auditors.
40. The FMPPI requires the following:
 41. Performance targets must be specific in clearly identifying the nature and required level of performance and must be measurable and the period or deadline for delivery of targets must be specified.
 42. Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. Performance indicators must also be verifiable.
 43. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.
 44. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of the indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Reliability of reported performance information

45. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records did not permit the application of alternative audit procedures.

Local economic development

Usefulness of reported performance information

46. Section 41(c) of the MSA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 100% of all planned objectives specified in the integrated development plan (IDP) for the year under review. This was due to a lack of information systems recording and documenting actual achievements against targets and a lack of review of the completeness of reporting documents by management and the internal audit unit.
47. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the development priorities, objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and or without adoption by the municipal council. This was as a result of management not developing appropriate measures to monitor compliance with applicable law and regulations. Management has also not created and implemented action plans that address deficiencies identified by external auditors.
48. The FMPPI requires the following:
 49. Performance targets must be specific in clearly identifying the nature and required level of performance and must be measurable and the period or deadline for delivery of targets must be specified.
 50. Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. Performance indicators must also be verifiable.
 51. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.
 52. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of the indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Reliability of reported performance information

53. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records did not permit the application of alternative audit procedures.

Additional matters

54. I draw attention to the following matters, my opinion is not modified in respect of these matters:

Achievement of planned targets

55. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 38 to 53 of this report.

Unaudited supplementary information

56. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

57. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Audit committee

58. An audit committee was not in place, as required by section 166(1) of the MFMA and consequently the municipality did not comply with any of the requirements of the MFMA and municipal planning and performance regulations applicable to audit committees.

59. A performance audit committee was not in place and there was no audit committee to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).

Internal audit

60. An internal audit unit was not established, as required by section 165(1) of the MFMA.

61. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- it did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices and risk and risk management.
- it did not advise the accounting officer on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

62. Payments were made from the municipality's bank account without the approval of a properly authorised official, as required by section 11(1) of the MFMA.

63. An effective system of expenditure control, including procedures for the approval of funds, was not in place, as required by section 65(2)(a) of the MFMA.

64. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
65. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue Management

66. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
67. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset Management

68. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
69. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and Municipal investment regulation 3(1)(a) and 3(2).

Liability Management

70. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
71. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence Management

72. Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
73. Unauthorised, irregular, fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

Conditional grants

74. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the DORA.
75. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the DORA.

Procurement and contract management

76. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as no service level agreement could be produced by the municipality.

77. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
78. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
79. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
80. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services.
81. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
82. Sufficient appropriate evidence could not be obtained to determine whether there were any recommendations that were made by adjudication committee that are different from evaluation committee that were submitted to the accounting officer first.
83. Sufficient appropriate evidence could not be obtained to determine whether there were any councillors of the municipality that participated in committees evaluating or approving tenders/quotations or that attended meetings of committees evaluating or approving tenders/quotations, in contravention of section 117 of the MFMA.
84. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA).
85. Contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
86. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
87. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
88. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality as required by section 116(3) of the MFMA.
89. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.

90. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
91. Sufficient appropriate evidence could not be obtained to determine whether the contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
92. Sufficient appropriate evidence could not be obtained to determine whether measures to combat the abuse of the SCM system were implemented as per the requirements of SCM regulation 38(1), to ensure that awards are not made to providers who:
 - during the last five years, failed to perform satisfactorily on a previous contract with the municipality or municipal entity or other organ of state;
 - committed a corrupt or fraudulent act in competing for the contract;
 - abused the SCM system of the municipality;
 - had been convicted of fraud or corruption during the past five years.

Annual financial statements, performance and annual reports

93. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
94. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving an qualified audit opinion.
95. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the MFMA.
96. The annual performance report for the year under review did not include
 - the performance of the municipality and
 - a comparison of the performance with set targets and a comparison with the previous financial year and
 - measures taken to improve performance, as required by section 46 (1)(a), (b) and (c) of the MSA.

Human Resource management

97. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
98. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.

99. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels 14(2)(b)/14(3).

Strategic and performance management

100. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
101. The IDP was not annually reviewed based on the assessment of its performance measurements and changing circumstances, as required by section 34 of the MSA and Municipal planning and performance management regulation 3 and 11.
102. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
103. Measurable performance targets for the financial year were not set in the IDP, for each of the key performance indicators and with regard to each of the development priorities or objectives, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
104. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and the Municipal planning and performance management regulation 10(a).
105. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and/or the operational and capital expenditure, by vote.
106. Sufficient appropriate audit evidence could not be obtained that revisions to the service delivery and budget implementation plan were approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
107. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
108. Annual performance agreements for the municipal manager and all senior managers linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan were not signed as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
109. The performance management system and related controls were not in place as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

Internal control

110. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

111. Leadership did not fulfil its oversight responsibilities with regards to the implementation and monitoring of internal controls and compliance with laws and regulations and did not insist on daily disciplines to ensure sound financial and performance management and compliance with laws and regulations.
112. Critical vacancies were only filled towards the end of the financial year which led to insufficient capacity to address the repeat control deficiencies.

Financial and performance management

113. The municipality's system of internal control did not identify the numerous misstatements within the financial statements. The control environment at the municipality is not fully functional, with inadequate daily, monthly processing and reconciliation of transactions expenditure, employee costs and non-current assets. In addition, management relied on consultants to compile the financial statements at year-end; however the underlying records had various deficiencies.
114. The annual performance reports also included material misstatements due to the lack of oversight of the collection, collation and reporting of performance information. There is limited assurance and accountability over the performance management system.

Governance

115. Risk management activities were not sufficient as evidenced by the large number of repeat findings. The municipality also lacked effective risk monitoring processes in order to ensure risks identified are appropriately managed.
116. The internal audit function lacked sufficient capacity to function effectively and produce reports during the financial year. The audit committee was not properly constituted and was disbanded during the year. As a result the governance structures of the municipality were severely compromised.

East London

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

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GLOSSARY

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